Atlantic City convention & visitors authority 2006 Annual Report

Mon, March 24, 2008

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Jon Corzine
Governor

Ken Condon
Vice Chairman

Jeffery S. Vasser
Executive Director

Welcome

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One word isn't enough to sum up the year 2006 in Atlantic City, but several come to mind: Exciting. Groundbreaking. Challenging. Positive. Definitely "Always Turned On." It was a year that gave Atlantic City international, national and regional publicity. A year in which investors' and developers' confidence in Atlantic City continued to grow. And a year in which both new and anticipated challenges began to take shape.

The excitement was palpable when the long-awaited Pier Shops at Caesars and Borgata's first phase of additions opened. A flurry of new construction projects, including 2,500 additional hotel rooms, created a stir. Purchases of property for new casino and condo projects created a buzz throughout the casino, investment and real estate communities.

An unexpected and sudden three-day shutdown of the casinos caused by the delay in passing a workable state budget broke new ground for the gaming and tourism industries, and sent the area's marketers scrambling to reinforce the message that Atlantic City is a complete destination resort. It also generated news stories that circled the globe, bringing a renewed interest in Atlantic City to editors and readers alike. In spite of the closure, casinos revenues reached a record $5.2 billion, and room occupancy rates in 2006 remained exceptionally high, at 91.7 percent (slightly ahead of 2005's 91.3%). The room occupancy rate is notable in light of the average occupancy rate of 62 percent nationwide, according to Plunkett Research, Ltd.

The announcement of a new Monopoly Board that would not include Atlantic City gave us an opportunity to rally our Atlantic City supporters. It also provided us with an opportunity to forge a new relationship with Monopoly's manufacturer, Hasbro, and you'll see some fun and positive things stemming from that relationship in 2007 and beyond.

Who would have thought that a man-sized peanut could focus the spotlight on Atlantic City? Mr. Peanut gave us more national attention when he helped us celebrate Planter Peanuts' 100th anniversary.

The annual Atlantic City Airshow - now our signature event - surpassed everyone's projections, bringing 600,000 people to the Boardwalk and beach, along with generating widespread and positive publicity for the resort.

Electricity filled the air when entertainment luminaries as diverse as Barbra

Streisand, the Rolling Stones and Madonna played at Boardwalk Hall, named the "highest grossing mid-size arena in the world" by *Billboard* magazine. The positive vibrations kept coming in waves as the city's entertainment scene seemed to continue non-stop during the entire year at venues throughout town.

Boardwalk Hall also began to build excitement about sports entertainment, as preparations intensified for the first of two Atlantic Ten Conference Men's Basketball Championships (2007 and 2008). The A10 Media Day brought the conference coaches to Atlantic City to meet the media from throughout the region - many of whom had never visited Atlantic City. Positive reviews about both Boardwalk Hall and Atlantic City helped create valuable buzz among a new market for visitors.

While the Sands casino drifted into a place in Atlantic City's history, the future looks bright as Pinnacle Entertainment formulates plans for a new casino resort that will bring a new energy to that part of the Boardwalk, while a brand new gaming company, Revel Entertainment, formulates plans for yet another multi-billion dollar megaresort on a 20-acre tract next to Showboat casino. And the $100 million renovation to the Boardwalk stores will provide a fresh, updated look that will make a stroll even more enticing.

As we now face the long-anticipated challenges of gaming in nearby markets and adjusting to non-smoking regulations, the billions of dollars (yes, billions with a "b") recently invested and currently being invested in Atlantic City will pay off handsomely in attracting new visitors. We can already see a renewed interest from the convention and trade show sector, as well as a large increase in interest from potential visitors logging onto our Web site.

We are looking forward to making these new visitors part of our Atlantic City family.

Sincerely,

Jeffrey S. Vasser

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Awards and Recognitions

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The ACCVA continually strives for excellence, and we have been recognized for our top efforts. Here are some of the industry and professional awards we received in 2006:

Convention Industry Awards

The Hospitality Sales and Marketing Association International (HSMAI) awarded two Adrian Awards to the ACCVA:

- Silver award for our "Always Turned On" marketing theme
- Bronze award for feature placement of the "Stars Shine Brightly Again in Atlantic City" article (*Life & Style* Weekly magazine, July 11, 2005)

Tourism Industry Awards

American Bus Association honored Atlantic City with two awards:

- Top 100 Events in the country for the Atlantic City Airshow - Thunder Over the Boardwalk
- Top Casino Destination

Lehigh Valley magazine bestowed its Best Weekend and Day Trip honor on Atlantic City.

Communication Awards

The "Atlantic City...Always in the News" publication garnered several awards:

- Award of Excellence (top award) for special edition newsletters in The Communicator Awards competition
- Award for Publication Excellence from the 2006 APEX Awards
- Gold Award from MarCom Creative Awards

The Videographer Awards bestowed an Award of Distinction on the ACCVA for the "Atlantic City...Always Turned On - Experience It" DVD

The ACCVA received the award of Outstanding Achievement in Internet Advertising from the 2006 Internet Advertising Competition.

Boardwalk Hall Awards

Both *Billboard* magazine and *Venues Today* magazine again recognized Boardwalk Hall as the top-grossing mid-sized arena in the world.

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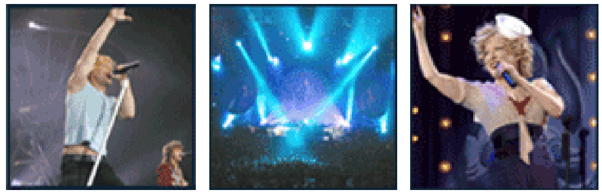

Boardwalk Hall YOUR BEST SEAT AT THE SHORE

Boardwalk Hall

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As the Atlantic City market continues to evolve, the opening of more entertainment venues throughout the city provides a two-prong effect on Boardwalk Hall:

- New venues bring competition for booking top acts, and
- The city's growing reputation as an entertainment powerhouse attracts more top producers and entertainers to the area.

In 2006, the competition seemingly had little effect on Boardwalk Hall, as it again grabbed headlines as the top-grossing mid-sized arena in the world according to both *Venues Today* and *Billboard* magazines.

Names like Streisand, Madonna, Barry Manilow and The Rolling Stones, among others, joined the long list of luminaries who lit up the stage to sell-out crowds. Boxing, wrestling and mixed martial arts fans packed the house for championship bouts. A variety of shows and events appealing to targeted audiences helped spread the work that Boardwalk Hall is *the* place to be.

SMG, which operates both Boardwalk Hall and the Convention Center for the ACCVA, continues to capitalize on providing the city's largest entertainment venue by seeking a diverse group of sporting events, concerts and shows that draw audiences from both the local community as well as visitors from regional and national markets.

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Convention Sales

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A year ago, we planted the seeds for developing new business for future years at the Atlantic City Convention Center. While our strategies began to bring a return on investment during 2006, the outlook is even brighter for 2007 and beyond.

The Convention Center hosted 87 conventions, trade shows and public shows in 2006, up from 75 in 2005. Accordingly, the number of attendees increased to 443,806 in 2006, up from 423,914. Combined, these events generated nearly $192.5 million in delegate spending, a 28.4 percent increase from 2005.

Even more significant, though, is the growth in future bookings. In 2006, we realized a 78 percent increase in room nights associated with future bookings. The quality of those bookings is evidenced in the size of the shows, which bring an increase of 208 percent in projected attendance. Delegate spending, room nights and other related factors for future bookings also realized a significant increase.

These results come from a concerted effort to find better ways to reach meeting and convention planners and better ways to serve them. We did it through several channels:

- We reorganized the sales staff to better concentrate on target markets.
- We implemented a new Web site, www.meetinac.com, specific to meeting and convention planners.
- We started utilizing a new online group housing service that provides planners the features they requested.
- And we began to develop a new graphic design that presents a professional and mature image for both the ACCVA and Atlantic City.

The Convention Services staff also plays a large role in satisfying meeting and convention planners' needs by providing ancillary services such as organizing spouse programs, attendance building, shuttle coordination, a "Show Me Your Badge" Discount program, convention staffing and other needs. The department also works with the Marketing Partner program to ensure that referrals to Partners are a first priority when providing services. In 2006, we booked 12,616 restaurant reservations at the Convention Center's restaurant cart, almost exclusively at establishments that are Marketing Partners.

We have become a true one-stop shop -- the Total Meeting Resource - for planners, and will continue to enhance our services to maintain a strong sales advantage.

2006 CONVENTION CENTER COMPARISONS

DECEMBER 31, 2006

	2005	2006	% of Change
Convention / Tradeshows			
# of Shows	56	62	10%
# of Delegates	233,985	266,566	13%
Delegate Spending	$129,515,273	$173,440,268	33%
# of Event Days	137	171	24%
Public Shows			
# of Shows	19	25	31%
# of Attendees	189,929	177,240	7%
Delegate Spending	$20,417,044	$19,053,381	7%
# of Event Days	55	64	16%
Monthly Totals			
# Convs/Trade/Public Shows	75	87	16%
# of Attendees	423,914	443,806	4%
Delegate Spending	$149,932,317	192,493,649	28%
# of Event Days	192	235	22%

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Click here (PDF) to read Atlantic City Convention Center's Financial Statements for the Years Ended December 31, 2006 and 2005

Articles in PDF format where indicated (requires Acrobat Reader)

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Atlantic City Convention Center Authority

Financial Statements for the Years Ended December 31, 2006 and 2005

ATLANTIC CITY CONVENTION CENTER AUTHORITY

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ATLANTIC CITY CONVENTION CENTER AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

Introduction to the annual report

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

Management's Discussion and Analysis

The Management's Discussion and Analysis ("MD&A") presents an overview of the Authority's operations and financial performance during the years ended December 31, 2006 and 2005. It provides an assessment of how the Authority's financial position has improved or deteriorated and identifies the factors that, in management's view, significantly affected the Authority's overall financial position. It may contain opinions, assumptions or conclusions by the Authority's management that should not be considered a replacement for, and must be read in conjunction with, the other financial statements described below.

Financial Statements of the Authority

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

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

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

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

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

The Notes to the Financial Statements

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

The Authority's Business

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

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

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

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

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

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

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

Financial Analysis

The following sections will discuss the significant changes in the Authority's financial position for 2006 and 2005. Additionally, an examination of major economic factors and industry trends that have contributed to the Authority's operations are provided. It should be noted that for purposes of this MD&A, summaries of the financial statements and the various exhibits presented include information from the Authority's financial statements, which are prepared in accordance with accounting principles generally accepted in the United States of America.

Highlights

Although visitation statistics for 2006 are not available yet, Atlantic City began the year on a high note. Armed with a record number of visitors in 2005, nearly 35 million, the destination became the fourth most visited in the United States. In fact, visitation to Atlantic City has steadily grown over the last couple of years, with 32 million visiting the destination in 2003 and 33 million visiting in 2004.

New developments such as the opening of Borgata Hotel Casino & Spa's expansion and the new Pier Shops at Caesars capitalized on the buzz surrounding the city. Atlantic City's Boardwalk Hall saw the number of "A-list" entertainment multiply, which resulted in a dramatic increase in attendance. The Convention Center also saw an increase in attendance in the summer months when compared to the previous year, due to the return of many favorite shows and the introduction of new ones. Even the 2006 Atlantic City Airshow – what is now considered by many to be Atlantic City's signature event – saw a dramatic increase in attendance. An estimated 600,000 people descended on the city in August for the one-day event, nearly doubling the attendance from past years.

It's the job of the Authority to take this success – the increase of visitors, attractions and entertainment that took place in 2006 – and expand on it in 2007 and beyond. This growth in visitation, of course, is beneficial for the Authority given the fact that luxury tax revenues, marketing fee revenues and almost all of the Authority's operating revenues are generated by expenditures made by visitors to this destination.

Luxury tax receipts, which are taxes calculated on the sale of alcoholic beverages by the glass, hotel rooms, and cover charges for admissions to theaters, exhibitions, and other places of amusement, increased in 2006. Atlantic City is experiencing a substantial upturn in the construction and planned construction of hotel rooms, restaurants, and non-gaming entertainment and retail establishments, which all generate luxury taxes. One big reason for all of the non-gaming construction is the establishment of the Urban Revitalization Program. This program provides a lucrative incentive to casinos and the CRDA to build these types of projects, and Atlantic City has already benefited from some of the resulting projects such as: The Quarter at the Tropicana, the entertainment-retail project along the city's entrance/exit corridor, known as The Walk, The House of Blues at the Showboat, and the Pier Shops at Caesars, not to mention all of the new hotel room construction. As a result, luxury tax revenue for the Authority grew by over $1,000,000 in 2006.

The Authority's combined marketing fee and luxury tax revenue associated with hotel room occupancy also increased in 2006. Planned hotel room construction at Harrah's, Borgata, and Trump Taj Mahal Casino Resort will add nearly 2,600 hotel rooms to Atlantic City's inventory through 2008. The Sands Casino Hotel, which closed in 2006, is expected to be demolished in 2007, and replaced by a $1.5 billion resort that represents the next generation of Atlantic City casinos – gigantic, luxurious and packed with nongaming amenities that give customers more to do than just gamble. Casino operator Pinnacle Entertainment Inc. has indicated that construction is expected to start in 2008, with a grand opening in 2011. The casino likely will feature 2,000 hotel rooms, high-end retail shops and a large entertainment venue. Morgan Stanley has also teamed with Revel Entertainment to build another 2,000-room property, targeted to open in 2010-2011, and MGM-Mirage expects to make a decision shortly on a large vacant parcel it controls next to the Borgata. The Authority's future luxury tax revenues, marketing fee revenues, and operating revenues will be impacted by the current and planned hotel room and non-gaming amenity construction.

Finally, the Atlantic City International Airport expanded its flight services in 2006, which will positively impact the number of visitors to Atlantic City. Spirit Airlines resumed service from Detroit beginning in May 2006, with connecting service to San Francisco, Las Vegas, and Los Angeles. Also, Delta Air Lines began offering non-stop service between its largest hub in Atlanta and the Atlantic City International Airport in June 2006. The new flights will connect customers from nearly 200 worldwide destinations via Atlanta. In the works is a 1,400-space parking garage to be completed in mid-2008. Increased scheduled air service along with the increased hotel inventory will certainly allow the Authority to target larger conventions and attractions, which could impact the operating revenues at both the Convention Center and Boardwalk Hall.

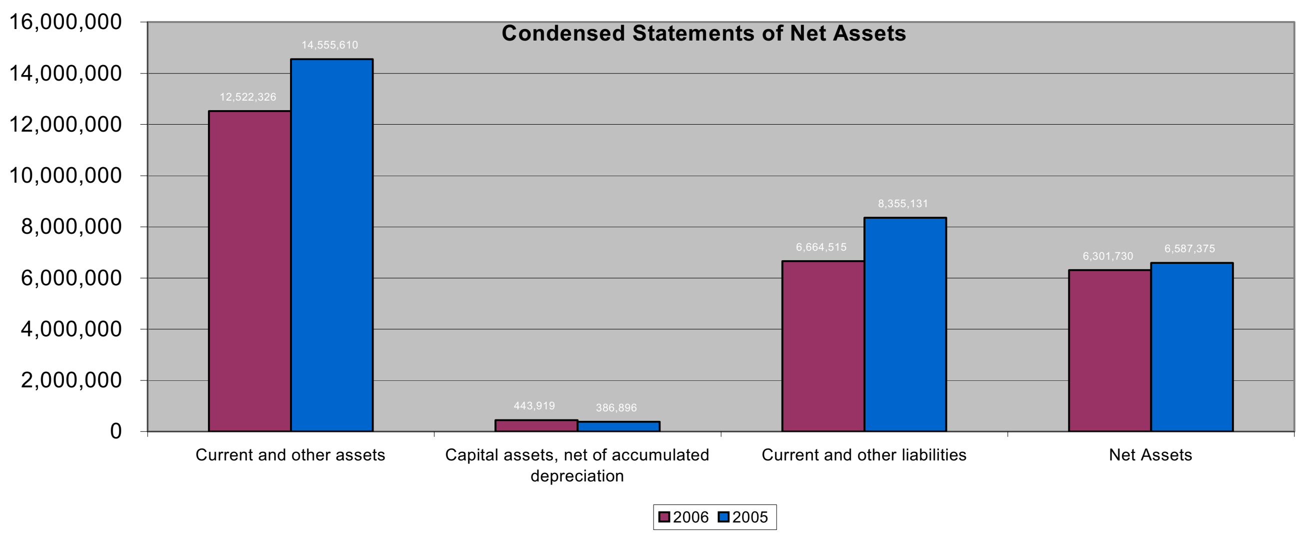
Financial Summaries

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

EXHIBIT 1

Condensed Statements of Net Assets

	December 31, 2006	December 31, 2005	December 31, 2004
Current assets	$ 12,522,326	$ 14,555,610	$ 13,781,828
Capital assets, net of accumulated depreciation	443,919	386,896	213,305
Total assets	12,966,245	14,942,506	13,995,133
Current and other liabilities	(6,664,515)	(8,355,131)	(7,818,326)
Net assets	$ 6,301,730	$ 6,587,375	$ 6,176,807



Current assets decreased $2,033,284 in 2006 to $12,522,326. The primary reason for the decrease in current assets was the $2,523,430 reduction in cash and cash equivalents in 2006. Marketing Operations' cash and cash equivalents decreased $2,174,522 as a result of the withholding of marketing fees by the State of New Jersey during 2006 in order to fund marketing fee rebates due to the CRDA and casinos in the Urban Revitalization Program for 2004, 2005, and 2006. Cash and cash equivalents at the Convention Center and

Boardwalk Hall decreased $348,908 in 2006 primarily due to the increases in prepaid expenditures at the end of 2006. There was a $1,195,398 increase in the Due from the State of New Jersey, which is associated with the above-mentioned State's withholding of marketing fees. This receivable was also reduced by increased rebates in 2006 and the current-year rebate adjustment for the 2004 and 2005 rebate certifications. There was a $783,162 decrease in the Due from New Jersey Sports and Exposition Authority, which pertained primarily to the $1,046,247 decrease in accounts payable and accrued expenses for the Convention Center and Boardwalk Hall in 2006 as compared to 2005. Capital expenditures and operating deficits of the Convention Center and Boardwalk Hall are funded by luxury taxes collected by the NJSEA. Receivables decreased $278,098 in 2006 primarily due to timing issues. An A-10 basketball game was played at Boardwalk Hall in December 2005 and $106,488 in proceeds from the event was not paid to the ACCVA until 2006. Commissions for November 2005 events held at the Convention Center and Boardwalk Hall, totaling $37,595, were uncollected at December 31, 2005, while only December 2006 commissions remained outstanding at December 31, 2006. There was also a collective reduction of $141,944 in receivables from the South Jersey Transportation Authority ("SJTA") and various casino properties as a result of a reduction in joint marketing activities at the end of 2006. Prepaid and other assets increased $356,008 primarily due to $463,413 in new and higher prepaid pollution and property insurance expenditures for the Convention Center and Boardwalk Hall. This increase was partially offset by an $84,234 decrease in prepaid advertising for the ACCVA, which is associated with the cancelled joint marketing agreement with the SJTA. Prepaid maintenance for the Convention Center also decreased in 2006 by $31,947 due to the reduction in prepayments for elevator and inspection maintenance contracts at the end of 2006.

The small increase in capital assets-net of accumulated depreciation was due primarily to the completion of some Pacific Avenue office renovations in 2006.

Current and other liabilities decreased $1,690,616 in 2006 to $6,664,515. Accounts payable and accrued expenses for the Convention Center and Boardwalk Hall decreased $1,046,247 in 2006 primarily due to the $795,000 reduction in capital accruals and the $270,800 decrease in accrued expenses associated with Verizon integration services offered to Convention Center customers. There were several months' worth of services payable at the end of 2005 and only one month's worth of services payable at the end of 2006. Verizon moved from a quarterly billing cycle in 2005 to a monthly billing cycle in 2006. Marketing Operations' payable to the State of New Jersey also decreased by $1,072,682 in 2006. Late in 2005, Marketing Operations received $874,603 in marketing fees, which were subsequently determined to be part of the marketing fee rebates due to the CRDA and casinos in the Urban Revitalization Program. These marketing fees were sent back to the State of New Jersey in January 2006. The aforementioned decreases were offset, somewhat, by the $304,461 increase in deferred revenue for the Convention Center and Boardwalk Hall in 2006 over 2005 as a result of cyclical events and signed contracts at the end of 2006 as compared to the same at 2005.

In 2005, current assets increased by $773,782 to $14,555,610 as a net result of Marketing Operations' $1,197,278 increase, and Boardwalk Hall and Convention Centers' $423,496 decrease in current assets.

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

EXHIBIT 2

Condensed Statements of Revenues, Expenses and Changes in Net Assets

	Year Ended December 31, 2006	Year Ended December 31, 2005	Year Ended December 31, 2004
Operating revenues	$ 18,508,267	$ 16,324,000	$ 16,785,753
Operating expenses	(34,820,037)	(31,870,384)	(32,744,441)
Operating loss	(16,311,770)	(15,546,384)	(15,958,688)
Nonoperating income:			
Luxury tax revenue	8,537,702	7,447,694	7,538,431
Marketing fee revenue	6,740,993	7,756,226	9,899,943
Insurance settlement from Grid Collapse	275,000	454,790	-
Interest income	472,430	298,242	82,269
Total nonoperating income	16,026,125	15,956,952	17,520,643
(Decrease) Increase in net assets	$ (285,645)	$ 410,568	$ 1,561,955

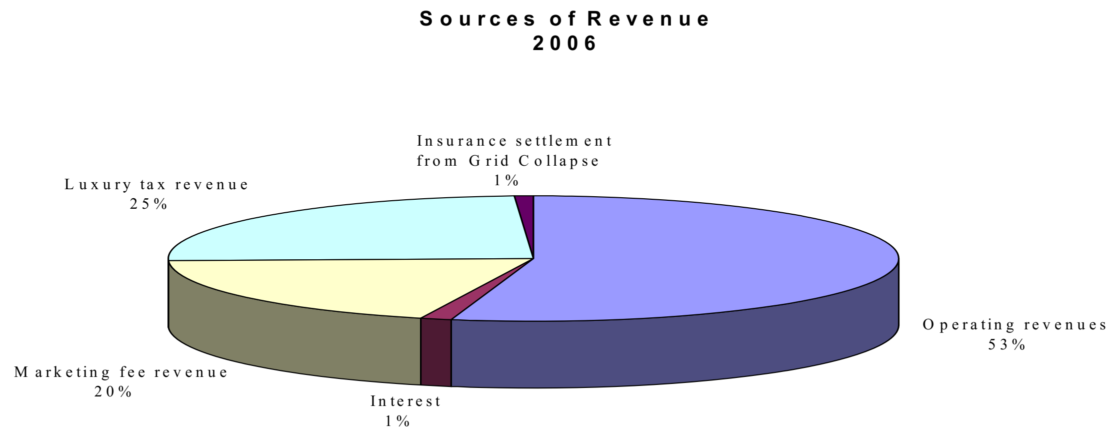
While the Statements of Net Assets show the financial position or net assets, the Statements of Revenues, Expenses, and Changes in Net Assets provides answers as to the nature and source of these changes.

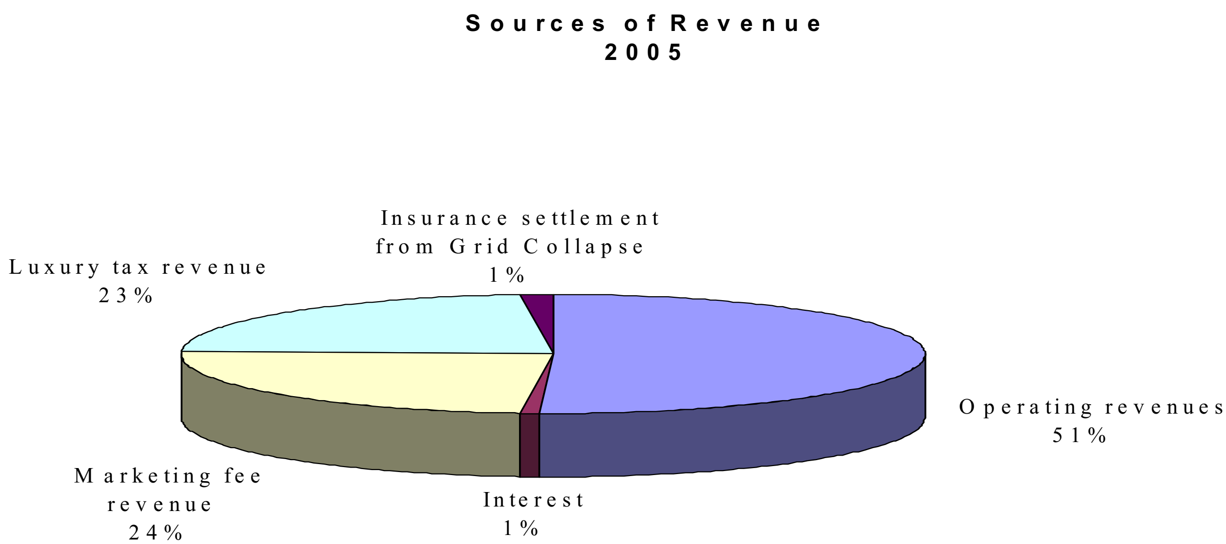
Sources of revenue consisted of:

- Operating revenues - the revenues generated at the Convention Center, Boardwalk Hall, the West Hall, and the Marketing Operations Segment.

- Luxury tax revenue - received from NJSEA for capital expenditures for the Convention Center, Boardwalk Hall, and the West Hall and the operating deficit of the Convention Center, Boardwalk Hall, Marketing Operations, and the West Hall.

- Marketing fee revenue - collected from Atlantic City hotels, via the State, to promote the destination of Atlantic City.



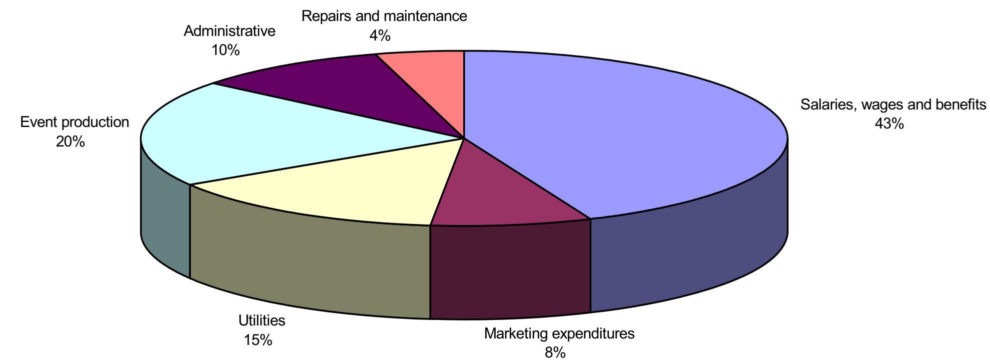


Sources of expenses consisted of:

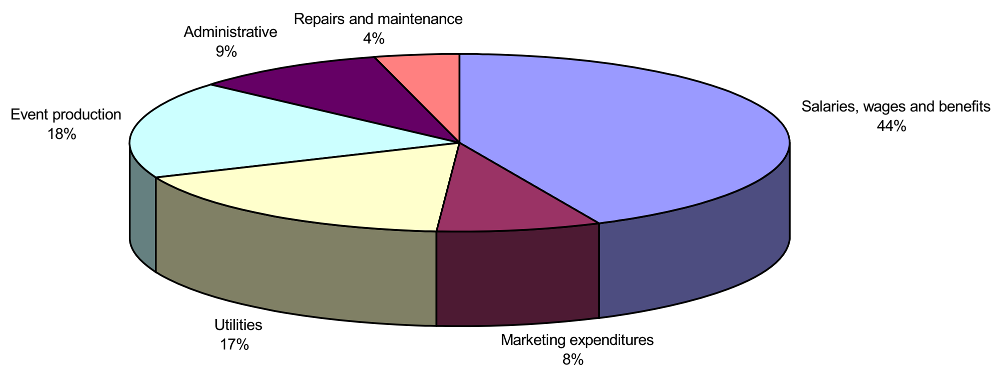
- Operating expenses - all of the costs associated with promoting the destination of Atlantic City and operating the facilities, except for costs of a capital nature that are depreciated.

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

Operating Expenses
2006



Operating Expenses
2005



Operating Highlights

Number of Attendees

	2006	2005	2004
Boardwalk Hall	278,832	260,894	337,095
Convention Center	466,790	469,297	536,981
	745,622	730,191	874,076

Number of Events

	2006	2005	2004
Boardwalk Hall	49	64	95
Convention Center	189	180	207
	238	244	302

Operating Revenues & Expenses by Facility (000's)

	2006	2005	2004
Operating Revenues:			
Boardwalk Hall	$ 6,410	$ 4,676	$ 4,855
Convention Center	11,566	10,801	10,721
Marketing Operations	532	847	1,210
	$ 18,508	$ 16,324	$ 16,786
Operating Expenses:			
Boardwalk Hall	$ 10,833	$ 9,327	$ 11,058
Convention Center	15,138	14,324	12,979
Marketing Operations	8,849	8,220	8,707
	$ 34,820	$ 31,871	$ 32,744

Operating revenues for the Authority increased by $2,184,267 to $18,508,267 for the year ended December 31, 2006. Boardwalk Hall's operating revenues increased $1,740,070 primarily due to increases in special services, facilities rental and parking revenues during 2006. An increase in ticket incentives and increases in the amounts and rates billed back to customers of the Boardwalk Hall accounted for $1,201,781 of the increase. The balance of the increase pertained primarily to higher rental income from concerts and boxing events and higher parking revenues from the 2006 West Hall parking agreement. Some of the high-end, "A-list" concert productions that were responsible for the increased revenues were Madonna, the Rolling Stones, Barbara Streisand, Barry Manilow, and Elton John. The Convention Center's operating revenues increased $765,241 in 2006 from new and cyclical events held at the Center in 2006 and the associated increase in special services billed for those events. The operating revenues for Marketing Operations decreased by $314,639 in 2006 primarily from the decline in promotional reimbursement – regional marketing revenue. A Joint Marketing Agreement with the SJTA concluded early in 2006.

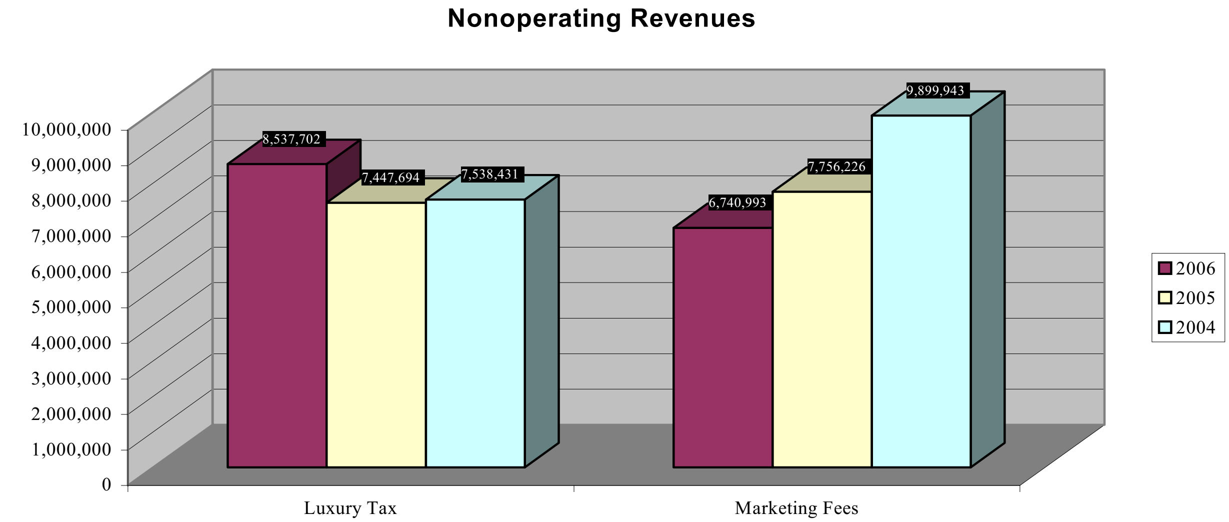
Operating expenses for the Authority increased by $2,949,653 to $34,820,037 for the year ended December 31, 2006. As illustrated above, Boardwalk Hall hosted more high-end production events in 2006 versus 2005, which led to an increase of $1,505,734 in operating expenses. The higher-end production events produced significant increases in payroll costs, contract services, supplies, production costs, and ticket master fees. Operating expenses increased at the Convention Center in 2006 by $814,470. New and cyclical events held at the Center led to a collective increase of $1,279,834 in payroll, production, contract services, and repairs and maintenance. This increase, however, was partially offset by a $379,202 decrease in electric and heating costs due to the mild 2006 winter. Operating expenses for Marketing Operations increased $635,854 primarily due to an increase of $548,150 in payroll and benefit expenses, an increase of $212,846 in marketing expenses, offset by an $111,349 decrease in contract services in 2006. Several positions that were vacant for portions of 2005 were filled in 2006, and the Authority's health, prescription, and pension expenses also increased significantly in 2006. The increase in marketing expenditures was primarily associated with the top headliners at Boardwalk Hall in 2006 and increases in advertising and public relation item expenses for the year. Contract Services decreased in 2006 primarily due to the end of the Joint Marketing Agreement with the South Jersey Transportation Authority.

Operating revenues for the Authority decreased by $461,753 in 2005 compared to 2004. This was primarily due to the decline in promotional reimbursement-regional marketing revenue of $424,000. The facility rental income for Boardwalk Hall and the Convention Center increased $146,757 due to an increase in arena rentals and an increase in space rental at Boardwalk Hall. This increase was offset by a decrease in parking fees at both facilities due to a decrease in the number of attendees.

Operating expenses for the Authority decreased by $874,057 in 2005 compared to 2004. Salaries overall declined $298,918 primarily due to a decline in Boardwalk Hall salaries of $864,183. This decline was related to the cancellation of the Miss America Pageant and fewer family style events. The decrease in Boardwalk Hall salaries was offset by an increase in salaries for the Convention Center and Marketing Operations of $292,675 and $272,590 respectively, due to higher salary and benefit costs. The decrease in the promotion reimbursement revenue from SJTA noted above resulted in a corresponding decline in marketing expenses of $458,000 for advertising related to this agreement. Expenses for contract services declined $495,286 primarily due to a reduction in expenses related to the Miss America Pageant. Professional fees for the Authority increased $436,614 primarily due to ongoing legal matters.

Nonoperating Highlights (000's)

	2006	2005	2004
Nonoperating Revenues			
Interest Income	$ 472	$ 298	$ 83
Insurance Settlement from Grid Collapse	275	455	0
Luxury Tax	8,538	7,448	7,538
Marketing Fees	6,741	7,756	9,900
	$ 16,026	$ 15,957	$ 17,521



Prior to 2006, luxury tax revenue was only received from NJSEA from the available Luxury Tax receipts to cover the capital requirements and the operating deficit of the Convention Center, the Boardwalk Hall, and the West Hall. Beginning in 2006, however, Marketing Operations also began receiving luxury tax revenue to replace marketing fees lost as a result of the Urban Revitalization Program. The amount of marketing fees to be rebated back to the CRDA and casinos was $3,188,540 in 2006. Marketing Operations, however, only received $1,257,875 in luxury taxes from the NJSEA to offset the loss of marketing fees due to rebates. Marketing Operations' receipt of luxury taxes in 2006 was the primary reason for the Authority's increase in luxury tax revenues. Luxury tax revenues decreased by $90,737 or approximately 1% in 2005 compared to 2004.

Marketing fee revenue decreased $1,015,233 in 2006 as a result of the Urban Revitalization Program. The decrease was due primarily to a $388,540 increase in marketing fee rebates in 2006 over 2005 and a current year adjustment for the $438,576 under-accrual of marketing fee rebates for 2004 and 2005. The 2004 and 2005 certification was finalized in 2006.

Marketing fee revenue decreased $2,143,717 or approximately 22% in 2005 as compared to 2004, which was also due to the Urban Revitalization Program. The Program was in place for the entire year in 2005 as compared to only the final three (3) months in 2004.

EXHIBIT 3

Capital Assets

	Balance, December 31, 2004	Additions	Balance, December 31, 2005	Additions	Balance, December 31, 2006
Computer equipment	$ 497,585	$ 33,212	$ 530,797	$ 141,525	$ 672,322
Furniture, fixtures and equipment	420,412	220,749	641,161	33,912	675,073
Total at cost	917,997	253,961	1,171,958	175,437	1,347,395
Less accumulated depreciation	(704,692)	(80,370)	(785,062)	(118,414)	(903,476)
Capital assets, net	$ 213,305	$ 173,591	$ 386,896	$ 57,023	$ 443,919

At the end of 2006 and 2005, the Authority had invested $443,919 and $386,896 in net capital assets, respectively, at costs of $1,347,395 and $1,171,958 net of $903,476 and $785,062 in accumulated depreciation, respectively.

Capital asset additions during 2006 and 2005 consisted substantially of the Pacific Avenue office renovations, outside banners for the Convention Center, and computer, network, and website upgrades. The Authority considers any asset with a value over $5,000 and an estimated useful life over three years a depreciable asset. Capital assets are depreciated using the straight-line method over three or five years.

Budgetary Controls

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

Contacting the Authority's Financial Management

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

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ATLANTIC CITY CONVENTION CENTER AUTHORITY

STATEMENTS OF NET ASSETS
DECEMBER 31, 2006 AND 2005

	2006	2005
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents (Note 3)	$ 7,755,743	$ 10,279,173
Due from the State of New Jersey—marketing fees	2,070,001	874,603
Due from New Jersey Sports and Exposition Authority	826,755	1,609,917
Receivables, net of allowance for doubtful accounts of $120,362 in 2006 and $143,247 in 2005	714,992	993,090
Prepaid expenses and other assets	1,154,835	798,827
Total current assets	12,522,326	14,555,610
CAPITAL ASSETS—Net of accumulated depreciation (Note 4)	443,919	386,896
TOTAL	$ 12,966,245	$ 14,942,506
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 4,224,701	$ 5,151,147
Payable to State of New Jersey		1,072,682
Total current liabilities	4,224,701	6,223,829
DEFERRED REVENUE	2,439,814	2,131,302
Total liabilities	6,664,515	8,355,131
NET ASSETS:		
Invested in capital assets	443,919	386,896
Unrestricted	5,857,811	6,200,479
Total net assets	6,301,730	6,587,375
TOTAL	$ 12,966,245	$ 14,942,506

See notes to financial statements.

ATLANTIC CITY CONVENTION CENTER AUTHORITY

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
OPERATING REVENUES:		
Special services	$ 8,380,349	$ 6,444,424
Facilities rental	5,444,300	4,662,948
Parking	2,077,849	1,814,322
Concessions	1,506,908	1,639,900
Promotion reimbursement	780,552	1,202,024
Other	318,309	560,382
Total operating revenues	18,508,267	16,324,000
OPERATING EXPENSES:		
Salaries, wages, and benefits	15,151,225	13,702,588
Marketing expenditures	2,748,782	2,580,045
Utilities	5,045,346	5,543,483
Contract services	4,402,116	3,678,157
Insurance	1,006,255	924,695
Repairs and maintenance	1,518,043	1,336,874
Supplies	807,758	554,835
Professional fees	774,946	754,559
Management fees	798,272	785,130
Bad debt expense	84,996	76,888
Parking participation	190,000	190,000
Depreciation	118,414	80,370
Production	1,945,218	1,316,764
Other	228,666	345,996
Total operating expenses	34,820,037	31,870,384
OPERATING LOSS	(16,311,770)	(15,546,384)
NONOPERATING REVENUE:		
Interest	472,430	298,242
Insurance settlement from grid collapse	275,000	454,790
Marketing fee revenue	6,740,993	7,756,226
Luxury tax revenue	8,537,702	7,447,694
Total nonoperating revenue	16,026,125	15,956,952
(DECREASE) INCREASE IN NET ASSETS	(285,645)	410,568
NET ASSETS—Beginning of year	6,587,375	6,176,807
NET ASSETS—End of year	$ 6,301,730	$ 6,587,375

See notes to financial statements.

ATLANTIC CITY CONVENTION CENTER AUTHORITY

STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2006 AND 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from customers	$ 19,094,877	$ 15,387,972
Payments to suppliers	(21,126,183)	(17,354,027)
Payments to employees	(14,857,894)	(13,540,256)
Net cash used in operating activities	(16,889,200)	(15,506,311)
CASH FLOWS FROM NONCAPITAL ACTIVITIES:		
Insurance settlement from grid collapse	275,000	454,790
Luxury tax revenue	9,320,864	7,536,952
Marketing fee revenue	4,472,913	9,422,101
Net cash provided by noncapital financing activities	14,068,777	17,413,843
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES—Additions to capital assets	(175,437)	(253,961)
CASH FLOWS FROM INVESTING ACTIVITIES—Interest collected	472,430	298,242
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,523,430)	1,951,813
CASH AND CASH EQUIVALENTS—Beginning of year	10,279,173	8,327,360
CASH AND CASH EQUIVALENTS—End of year	$ 7,755,743	$ 10,279,173
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (16,311,770)	$ (15,546,384)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	118,414	80,370
(Increase) decrease in assets:		
Receivables—net	278,098	336,262
Prepaids and other assets	(356,008)	159,318
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(926,446)	713,971
Deferred revenues	308,512	(1,249,848)
NET CASH USED IN OPERATING ACTIVITIES	$ (16,889,200)	$ (15,506,311)

See notes to financial statements.

ATLANTIC CITY CONVENTION CENTER AUTHORITY

NOTES TO FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2006 AND 2005

1. BACKGROUND AND AUTHORIZING LEGISLATION

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

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General—In its accounting and financial reporting, the Authority follows the pronouncements of the Governmental Accounting Standards Board ("GASB"). In addition, the Authority follows the pronouncements of all applicable Financial Accounting Standards Board ("FASB") statements and interpretations, accounting principles board ("APB") opinions, and accounting research bulletins ("ARBs") of the committee on accounting procedure issued on or before November 30, 1989, unless they conflict with or contradict GASB pronouncements.

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

The extent of financial accountability is based upon several criteria including: appointment of a voting majority, imposition of will, financial benefit to or burden on a primary government, and financial accountability as a result of fiscal dependency.

The Authority's financial statements are included in the Sports Authority's December 31, 2006 and 2005, consolidated financial statements.

Revenues and Expenses—Revenues of the Authority related to the usage of the Boardwalk Hall, West Hall, and the Convention Center are recognized when a convention or an event occurs. Expenses are allocated on a show-by-show basis. Overhead and maintenance costs are expensed as incurred.

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

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

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

Cash and Cash Equivalents—Cash and cash equivalents include short-term investments, which generally mature within 90 days, and are carried at cost, which approximates market. The Authority considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Use of Estimates—The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements— The Authority has implemented GASB Statement No. 42, Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries. The Authority reviews long-lived assets for impairment when events or circumstances indicate that the carrying amount may not be recoverable. The Authority records the appropriate loss when assets are disposed of or are determined to be impaired.

The Authority has completed the process of evaluating GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post Retirement Benefits Other Than Pensions,* and has been determined that is has no impact on the Authority.

The Authority has completed the process of evaluating the impact that will result from adopting GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation—an amendment of GASB Statement No. 34*.The Authority has concluded that the impact of adopting GASB No. 46 is not applicable to the Authority and therefore will have no impact on its financial position and results from operations. The Statement clarifies the definition of a "legally enforceable" enabling legislation restriction on a government's net assets. The statement was effective for fiscal periods beginning after June 15, 2005.

The Authority has completed the process of evaluating the impact that will result from adopting GASB Statement No. 47, *Accounting for Termination Benefits*. The Authority has concluded that the impact of adopting GASB No. 47 has no material impact on its financial position and results from operations. The Statement establishes the accounting standards for voluntary termination benefits (for example, early-retirement incentives) and involuntary benefits (for example, severance benefits). The statement was effective for fiscal periods beginning after June 15, 2005.

The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfer of Assets and Future Revenues. The Authority is therefore unable to disclose the impact GASB Statement No. 48 will have on its financial position and results of operations when such statement is adopted. The statement is effective for fiscal periods beginning after December 15, 2006.

The Authority has not completed the process of evaluating the impact that will result from adopting GASB Statement No. 49, Accounting and Financial Reporting for Pollution Remediation Obligations. The Authority is therefore unable to disclose the impact GASB Statement No. 49 will have on its financial position and results of operations when such statement is adopted. The statement is effective for fiscal periods beginning after December 15, 2007.

Reclassifications – Certain reclassifications have been made to the prior year's other expenses to conform to current year classifications. Such reclassifications have been recorded within various operating expenses within the statements of revenues, expenses and changes in net assets for the year ended December 31, 2005.

3. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents as of December 31, 2006 and 2005 are as follows:

	2006		2005	
	Book Balance	Bank Balance	Book Balance	Bank Balance
Demand deposits	$ 3,545,347	$ 4,086,314	$ 3,763,939	$ 3,924,118
State of New Jersey Cash Management Fund	4,210,396	4,210,396	6,515,234	6,515,234
Total cash and cash equivalents	$ 7,755,743	$ 8,296,710	$ 10,279,173	$ 10,439,352

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

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

All demand deposits of any depository must be fully secured by lodging collateral security of obligations secured by the United States of America with the bank. At December 31, 2006 and 2005, the Authority's demand deposits were fully secured by collateral security lodged with the Sports Authority's bank.

The Authority has no financial instruments with significant individual or group concentration of credit risk. All investments are in cash and cash equivalents, which are highly liquid, and are not subject to any interest rate or credit rate risk.

4. CAPITAL ASSETS

Capital assets at December 31, 2006, 2005, and 2004 consist of the following:

	Balance, December 31, 2004	Additions	Balance, December 31, 2005	Additions	Balance, December 31, 2006
Computer equipment	$ 497,585	$ 33,212	$ 530,797	$ 141,525	$ 672,322
Furniture, fixtures and equipment	420,412	220,749	641,161	33,912	675,073
Total at cost	917,997	253,961	1,171,958	175,437	1,347,395
Less accumulated depreciation	(704,692)	(80,370)	(785,062)	(118,414)	(903,476)
Capital assets, net	$ 213,305	$ 173,591	$ 386,896	$ 57,023	$ 443,919

These amounts represent capital costs incurred by the Authority. The costs and capital improvements of the Historic Boardwalk Hall and the Convention Center are recorded on the financial statements of the Sports Authority. The Authority considers any asset with a value over $5,000 and an estimated useful life over three years a capital asset. All assets are depreciated using the straight-line method over three or five years.

5. PENSION PLANS

The Public Employees' Retirement System of the State of New Jersey ("PERS"), a multiple-employer public retirement system, covers salaried employees of the ACCVA. The payroll for employees covered by PERS for the years ended December 31, 2006 and 2005, was $3,172,420 and $2,833,231, respectively. ACCVA's total payroll for the years ended December 31, 2006 and 2005 was $3,678,685 and $3,246,650, respectively.

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

The covered employee contributions required for the years ended December 31, 2006 and 2005 were $158,621 (5%) and $141,662 (5%), respectively. The employees made the contribution for 2006 and 2005. The employer contributions for 2006 and 2005 were $100,639 and $53,844, respectively.

All eligible employees of SMG may participate in a section 401(k) deferred compensation plan. SMG contributes a maximum of 66-2/3 of the first 5% of the employee's salary for 2006 and 2005. Annual expense for this plan was $94,324 and $67,803 for 2006 and 2005, respectively.

Additionally, some of the Authority's employees are participants in certain pension plans administered by local unions and contributions are made in accordance with terms of union agreements of those employees. There are four active unions participating in their own pension plans in accordance with each specific union agreement and based on each of the applicable union job trades. The total combined contributions for all participating unions were $220,280 and $220,604 in 2006 and 2005, respectively.

6. COMMITMENTS AND CONTINGENCIES

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

B. In September 1999, the Authority entered into a joint advertising and marketing agreement with the South Jersey Transportation Authority ("SJTA"). The term of the agreement was for the year ended December 31, 1999, with three one-year renewals ended December 31, 2002. Total cost was

$300,000 for the first year and $400,000 for the remaining three years, for a total of $1,500,000. On September 20, 2001, the Authority's board approved, in principle, a three-year extension of this agreement at $400,000 per year or $1,200,000. The SJTA terminated the agreement with the Authority effective December 15, 2005.

C. The Authority is a party to an ongoing agreement with New Jersey Transit. As long as rail service is operated to the Atlantic City Convention Center, New Jersey Transit is entitled to a share of the revenue of the garage at the convention center. An annual lump-sum amount of $190,000 would satisfy this agreement. The payments were $190,000 for 2006 and 2005.

7. INFORMATION ON AUTHORITY OPERATIONS BY OPERATING SEGMENT

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

	Year Ended December 31, 2006					Year Ended December 31, 2005				
	Boardwalk Center Operations	New Center	Marketing Operations	Elimination Entries	Combined December 31, 2006	Boardwalk Center Operations	New Center	Marketing Operations	Elimination Entries	Combined December 31, 2005
OPERATING REVENUES:										
Special services	$ 3,569,001	$ 4,828,819	$ -	$ (17,471)	$ 8,380,349	$ 2,367,220	$ 4,088,270	$ -	$ (11,066)	$ 6,444,424
Facilities rental	1,694,927	3,749,373			5,444,300	1,357,155	3,305,793			4,662,948
Parking	472,188	1,605,661			2,077,849	165,278	1,649,044			1,814,322
Concessions	419,469	1,087,439			1,506,908	429,670	1,210,230			1,639,900
Promotion reimbursement and fees	217,366	126,239	422,682		766,287	244,532	147,336	810,156		1,202,024
Other	204,273	168,752	109,549	(150,000)	332,574	273,299	400,369	36,714	(150,000)	560,382
Total operating reveues	6,577,224	11,566,283	532,231	(167,471)	18,508,267	4,837,154	10,801,042	846,870	(161,066)	16,324,000
OPERATING EXPENSES:										
Salaries, wages and benefits	4,236,596	6,049,708	4,864,921		15,151,225	3,869,118	5,516,699	4,316,771		13,702,588
Marketing expenditures	145,037	1,911	2,613,482	(11,648)	2,748,782	180,760	6,555	2,400,636	(7,906)	2,580,045
Utilities	1,844,505	3,064,327	142,337	(5,823)	5,045,346	1,946,958	3,443,529	156,156	(3,160)	5,543,483
Contract services	1,248,826	2,535,641	617,649		4,402,116	915,714	2,033,445	728,998		3,678,157
Insurance	496,872	481,045	28,338		1,006,255	478,056	421,086	25,553		924,695
Repairs and maintenance	453,781	843,238	221,024		1,518,043	333,389	807,924	195,561		1,336,874
Supplies	296,304	420,876	90,578		807,758	112,332	345,639	96,864		554,835
Professional fees	415,251	274,192	85,503		774,946	208,925	475,887	69,747		754,559
Management fees	399,136	399,136			798,272	392,565	392,565			785,130
Bad debts expense	10,000	74,996			84,996	29,750	42,204	4,934		76,888
Parking participation		190,000			190,000		190,000			190,000
Depreciation			118,414		118,414			80,370		80,370
Production	1,210,145	735,073			1,945,218	791,066	525,758			1,316,764
Other	76,212	68,316	234,138	(150,000)	228,666	68,358	122,698	304,940	(150,000)	345,996
Total operating expenses	10,832,665	15,138,459	9,016,384	(167,471)	34,820,037	9,326,931	14,323,989	8,380,530	(161,066)	31,870,384
OPERATING LOSS	(4,255,441)	(3,572,176)	(8,484,153)	-	(16,311,770)	(4,489,777)	(3,522,947)	(7,533,660)	-	(15,546,384)
NONOPERATING INCOME:										
Interest	226,246	46,544	199,640		472,430	70,353	39,887	188,002		298,242
Insurance settlement from Grid Collapse	275,000				275,000	454,790				454,790
Marketing fee revenue			6,740,993		6,740,993			7,756,226		7,756,226
Luxury tax revenue	3,754,195	3,525,632	1,257,875		8,537,702	3,964,634	3,483,060			7,447,694
	4,255,441	3,572,176	8,198,508	-	16,026,125	4,489,777	3,522,947	7,944,228	-	15,956,952
INCREASE (DECREASE) IN NET ASSETS			(285,645)		(285,645)			410,568		410,568
NET ASSETS—Beginning of year			6,587,375		6,587,375			6,176,807		6,176,807
NET ASSETS— End of year	$ -	$ -	$ 6,301,730	$ -	$ 6,301,730	$ -	$ -	$ 6,587,375	$ -	$ 6,587,375

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Media Relations

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2006 presented a variety of opportunities for the ACCVA to take advantage of enhanced media attention on Atlantic City. When the state budget crisis shuttered the casinos for three days, the ACCVA took every opportunity to tout the non-gaming merits of the destination - a message that aired on network affiliates throughout the East. When Hasbro announced a new version of Monopoly that doesn't include Atlantic City's famous streets, the ACCVA launched a grass-roots campaign that caught the fancy of TV networks and other media outlets -- across the country and across the world. That campaign alone received 79.6 million media impressions.

Cheerful special events also took hold in the media. Our coordination of and participation in Planter Peanuts' 100th anniversary celebration received media hits from coast to coast. The openings of The Pier Shops at Caesars and Borgata's expansion provided opportunities to step up our messaging that Atlantic City is truly a full-service destination - a story the media and meeting planners have begun to notice.

Publications as diverse as the *New York Post, Rachael Ray Everyday*, the *Baltimore Sun* and the *Washington Times* published positive destination stories. CN8, the Comcast network, broadcast a live beach party from the Atlantic City beaches as an episode of their morning show. The Fine Living Network produced an episode of their "Best Bet Vacations" show in Atlantic City, focused specifically on what to do other than gambling.

In total, print stories about Atlantic City generated 235.4 million impressions in 2006, and millions more impressions were made on television, radio and online broadcasts. This was accomplished through public relations efforts, special events and outreach to targeted media.

In coordination with the Lou Hammond and Associates PR agency in 2007, the ACCVA looks forward to even more national media attention, complementing the new attractions coming on line in the destination.

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Communications / Marketing

Keeping in touch with visitors, partners and the general public requires an ever-changing bag of tricks as technology requires a constant shift in methodology. The ACCVA kept pace throughout the year, adapting to new, younger visitors as well as new communication tools.

With general acceptance and widespread use of the "Always Turned On" marketing theme, the Graphic Communications staff continued to produce edgy, high-energy images for targeted Internet marketing, advertising and promotional use.

As a value added service for Marketing Partners and Convention Center clients, the Graphic Communications staff provided 2,500 hours of in-kind design services, in addition to producing our Visitors Guide, rack brochure, calendar of events, destination planning guide and other ACCVA publications while providing a consistent design and message.

While continuing to use traditional marketing channels, the ACCVA began to place additional emphasis on electronic marketing. Results were impressive, and the return on investment is obvious:

- Total Web site visitors increased 14%, to 3.4 million.
- Individual page views increased 63%, to 13.75 million.
- 67,938 people opted in to receiving our e-newsletters, a 15.5% increase.
- 3,675 rooms were booked online through our site, a huge 70.1% increase.
- The value of the room nights jumped 94.4% to nearly $555,000.

While Internet marketing grew significantly in keeping with a national trend, visitor inquiries through traditional channels continued. The end results show the ACCVA provides services to a significantly large number of people:

- 166,000 people walked through the doors of the Visitor Welcome Centers.
- We responded to 43,000 mail inquiries.
- We spoke with 18,800 people by telephone.
- Our visitor counselors booked 1,000 rooms for visitors, with an economic impact of $1.2 million.

Throughout 2007, the ACCVA will continue to explore and adopt new social media technologies to reach a younger market, as well as cultivate new ideas for tarditional marketing channels.

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Tourism Marketing

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In spite of a three-day casino shut down that sent some gamblers scurrying for alternate vacation plans during one of the busiest weeks of the year (Fourth of July), Atlantic City maintained its status as the fourth most-visited destination in the U.S., with nearly 35 million visitors.

Outreach by the ACCVA Tourism Marketing department to travel professionals helped bring top-of-mind awareness to tour operators and travel agents and gave Atlantic City high visibility.

Our staff circulated 229 group referrals, resulting in 9,460 visits with an economic impact of $1.6 million. Additionally, ACCVA reached out to regional travel agents through 19 group presentations and three AAA travel shows to a total of 5,400 agents.

Travel trade shows around the country provided us with opportunities to meet face-to-face with tour operators and group leaders. The ACCVA's staff attended 20 such shows in 2006, where they met with 3,300 tour operators. We also showed the city off to 456 travel professionals during 31 familiarization trips and site inspections.

The ACCVA Marketing Partnership program, which helps area businesses reach out to visitors, experienced significant growth in 2006, signing 77 new members and bringing total membership well over the 300 mark - with a great deal of continued growth in sight. By enlarging the Partnership base, we are able to provide potential visitors with more listings for hotels, restaurants, entertainment venues and tourist attractions.

Another responsibility of the Tourism Marketing department is oversight of film production efforts. With the bright lights, historic Boardwalk and scenic beaches, Atlantic City provides an intriguing backdrop for films of all types. In turn, film production can be lucrative for a destination, with hotel rooms, meals, equipment rentals, wages and more being spread throughout the region. In 2006, the ACCVA provided site inspections to location scouts from 51 film productions, and portions of 26 films were produced here.

Sports marketing played an important role in attracting new visitors. Several sports events in 2006 showcased Atlantic City's fine beaches and water sports. The Big Shot Volleyball Championships were played on the beach in September, while the AC ProAm Surf Series progressive competition brought attention from the U.S. surfing community. Both were sponsored in part by the ACCVA.

With an eye toward attracting 40 million visitors by 2012, the ACCVA's marketing activities in 2007 will expand to marketing the area as a golf destination, as well as attracting larger sports events, continuing the momentum that began with the Atlantic 10 Men's Basketball Championships, which Boardwalk Hall is hosting in 2007 and 2008.

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