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Cable DEHANDS

INDEPENDENT AUDITORS' REPORT

Chairman and Members of the Board  
Casino Reinvestment Development Authority  
Atlantic City, New Jersey:

We have audited the accompanying balance sheet of the Casino Reinvestment Development Authority (the "Authority") as of December 31, 1988 and the related statements of revenues, expenses and changes in fund equity and of changes in financial position for the year 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 audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform our 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority at December 31, 1988 and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles.

*Deloitte Haskins + Sells*

January 12, 1989

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

BALANCE SHEET, DECEMBER 31, 1988

<u>ASSETS</u>	<u>NOTES</u>	<u>OPERATING FUND</u>	<u>REINVESTMENT FUND</u>	<u>DEVELOPMENT FUND</u>
Cash and investments	3	\$4,247,622	\$110,805,603	\$ 169,208
Receivables:				
Obligations held by				
State of New Jersey	4,13		1,558,106	
Current obligations	5		8,479,150	
Prior obligations	5		28,551,955	
Notes	2			39,816,544
Interest		720,901		867,783
Other		311,772		
Escrowed funds	10	75,206		
Real estate held for				
resale	10	798,255		
Fixed assets (net)	2	103,454		
<b>TOTAL ASSETS</b>		<b>\$6,257,210</b>	<b>\$149,394,814</b>	<b>\$40,853,535</b>

LIABILITIES AND FUND EQUITY

Liabilities:				
Accounts payable and				
accrued liabilities		\$ 329,635		
Interest payable			\$ 2,122,276	\$ 871,402
Obligation deposits	6,7		110,241,433	
Accrued obligation				
deposits	5		8,479,150	
Deferred investment				
obligations	5		28,551,955	
Bonds payable	2,6			39,821,650
Other				141,484
<b>Total liabilities</b>		<b>329,635</b>	<b>149,394,814</b>	<b>40,834,536</b>
Fund equity - unrestricted:				
Reserve for:				
Indemnification	9	750,000		
Land banking	10	1,201,745		
Unreserved fund equity -				
retained earnings		3,975,830		18,999
<b>Total fund equity</b>		<b>5,927,575</b>		<b>18,999</b>
<b>TOTAL LIABILITIES AND FUND EQUITY</b>		<b>\$6,257,210</b>	<b>\$149,394,814</b>	<b>\$40,853,535</b>

See notes to financial statements.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND EQUITY  
FOR THE YEAR ENDED DECEMBER 31, 1988

	<u>OPERATING FUND</u>	<u>DEVELOPMENT FUND</u>
REVENUES:		
Interest	\$2,846,117	\$2,308,524
Project processing and other fees	644,508	
Other income	<u>81,219</u>	<u>16,086</u>
Total revenues	<u>3,571,844</u>	<u>2,324,610</u>
EXPENSES:		
Salaries and benefits	546,499	
Professional services	412,640	
General and administrative	138,418	
Interest		2,215,847
Other		<u>91,898</u>
Total expenses	<u>1,097,557</u>	<u>2,307,745</u>
EXCESS OF REVENUES OVER EXPENSES	2,474,287	16,865
FUND EQUITY, Beginning of year	<u>3,453,288</u>	<u>2,134</u>
FUND EQUITY, End of year	<u>\$5,927,575</u>	<u>\$ 18,999</u>

See notes to financial statements.

CASINO REINVESTMENT DEVELOPMENT AUTHORITYSTATEMENT OF CHANGES IN FINANCIAL POSITION  
FOR THE YEAR ENDED DECEMBER 31, 1988

	<u>OPERATING FUND</u>	<u>REINVESTMENT FUND</u>	<u>DEVELOPMENT FUND</u>
SOURCES OF CASH:			
Excess of revenues over expenses	\$2,474,287		\$ 16,865
Item not requiring funds - depreciation	14,806		
Increases in accounts payable and other liabilities	196,269		622,161
Collection of obligations		\$43,376,008	
Bonds issued			14,897,654
Collection of interest		<u>8,214,762</u>	
Total sources of cash	<u>2,685,362</u>	<u>51,590,770</u>	<u>15,536,680</u>
USES OF CASH:			
Increase in:			
Interest and other receivables	420,364		490,606
Escrowed funds	75,206		
Purchase of:			
Fixed assets	31,342		
Real estate held for resale	798,255		
Bonds issued		14,897,654	
Loan disbursements			14,897,654
Direct investment disbursements		12,238,184	
Payment of interest		<u>7,238,064</u>	
Total uses of cash	<u>1,325,167</u>	<u>34,373,902</u>	<u>15,388,260</u>
Increases in cash and investments	1,360,195	17,216,868	148,420
CASH AND INVESTMENTS, Beginning of year	<u>2,887,427</u>	<u>93,588,735</u>	<u>20,788</u>
CASH AND INVESTMENTS, End of year	<u>\$4,247,622</u>	<u>\$110,805,603</u>	<u>\$ 169,208</u>

See notes to financial statements.

CASINO REINVESTMENT DEVELOPMENT AUTHORITY

NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 1988

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1. ORGANIZATION

The New Jersey Casino Reinvestment Development Authority (CRDA) was created pursuant to Chapter 218 of P.L. 1984, effective December 19, 1984. Under the law, licensees (casinos) are required to either pay 2.5% of their gross revenues as a tax or to invest 1.25% of their gross revenues in bonds of the CRDA. The bond proceeds are used to finance projects, approved by the CRDA, in Atlantic City, South Jersey and North Jersey. The CRDA can also approve direct investments in projects made by the licensees, and approved direct investments may be used by the licensees to satisfy their investment obligation.

The CRDA is governed by a board of twelve members appointed as follows:

Voting Members:

Five members appointed by the Governor of the State of New Jersey with the consent of the New Jersey State Senate.

One member appointed by the Governor of the State of New Jersey upon the recommendation of the President of the New Jersey State Senate.

One member appointed by the Governor of the State of New Jersey upon the recommendation of the Speaker of the General Assembly of the State of New Jersey.

One member of the New Jersey Casino Control Commission appointed by the Governor of the State of New Jersey.

The Mayor of Atlantic City.

Nonvoting Members:

The State Treasurer.

Two members appointed by the Governor of the State of New Jersey representing the casino industry.

The CRDA as created pursuant to law is to:

- . Maintain public confidence in the New Jersey casino gaming industry as a unique tool of urban redevelopment for the City of Atlantic City, New Jersey and to directly facilitate the redevelopment of blighted areas in New Jersey by providing eligible projects in which licensees (casinos) can invest.
- . Provide loans and other financial assistance for the planning, construction, rehabilitation and repair of housing, recreation, transportation, education and community service facilities to provide decent, safe and sanitary living conditions for persons of low, moderate, median and middle incomes.
- . Assist in financing buildings, infrastructure and other property to increase opportunities in manufacturing, industrial, commercial, entertainment, and service enterprises to induce and accelerate opportunity for employment in those enterprises.
- . Promote the tourist industry in New Jersey, especially in Atlantic County.
- . Encourage investment in, or financing of, projects which are made as part of a comprehensive plan to improve blighted areas in New Jersey or areas that are targeted to benefit low through middle income New Jersey residents.

The CRDA is established in, but not of, the Department of the Treasury of the State of New Jersey and is a component unit of the State of New Jersey for financial reporting purposes.

The State Treasurer is required to approve all CRDA bond resolutions, investments, and the annual operating budget.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation - The accompanying financial statements have been prepared in conformance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the Financial Accounting Standards Board. The accounts of the CRDA are organized on the basis of funds, each of which is defined as a separate accounting entity. The funds utilized are as follows:

- . Operating Fund is used to account for all administrative and general transactions relating to the general operations of the CRDA. Revenues are derived from one third of the interest earned on the investment obligations received by the CRDA from the licensees prior to the issuance of bonds, and from project processing and administrative fees collected for the administration of CRDA loans.

- . Reinvestment Fund is used to account for the receipt of the investment obligations from licensees which are available to finance projects. Investment obligations are held in this fund until bonds have been issued or direct investment payments have been made for approved projects. Two thirds of all interest earned on investments held in the Reinvestment Fund is due to the licensees.
- . Development Fund is used to account for all bonds issued to finance projects with investment obligations and the corresponding loans receivable from those projects. All bonds included in the Development Fund are nonrecourse obligations of the CRDA.

Basis of Accounting - The accompanying financial statements have been prepared on the accrual basis. Separate accounts are maintained for each major fund, with all financial transactions recorded and reported by fund group.

Fixed Assets - Fixed assets, consisting primarily of furniture and equipment, are carried at cost less accumulated depreciation of \$22,044 at December 31, 1988. The Authority depreciates these assets under the straight-line method over their estimated useful lives.

### 3. CASH AND INVESTMENTS

The "Securities Purchase Contract" between the CRDA and the licensees prescribes the type of investments allowed in the Reinvestment Fund. The "Securities Purchase Contract" requires that all investments be as follows:

- . Direct obligations of or obligations unconditionally guaranteed by the United States or direct obligations of or obligations unconditionally guaranteed by any state of the United States. If the latter is chosen, the securities must be rated in any of the two highest rating categories by a nationally recognized rating service.
- . Repurchase agreements that are collateralized by direct obligations of or obligations unconditionally guaranteed by the United States. The collateral must have a market value at all times equal to the repurchase price, and they must be perfected for the benefit of the CRDA.
- . Units of the New Jersey Cash Management Fund, invested by the State Division of Investments, consisting of short-term obligations of the U.S. Government and certain of its agencies, commercial paper, certificates of deposit, repurchase agreements and bankers' acceptances.

Certificates of deposit issued by a bank, trust company, national banking association, savings and loan association or other financial institution that is fully and continuously secured by direct obligations of, or obligations unconditionally guaranteed by the United States. The securities underlying the certificates of deposit must have a market value at all times equal to the principal amount of such certificates of deposit, and must be held in such a manner as may be required to provide a perfected security interest for the benefit of the CRDA.

As of December 31, 1988, all investments held in the Reinvestment Fund by the CRDA were in compliance with the requirements of the "Securities Purchase Contract".

Substantially all cash and investments held in the Operating Fund and Development Fund at December 31, 1988 are invested in the New Jersey Cash Management Fund.

#### 4. OBLIGATIONS HELD BY THE STATE OF NEW JERSEY

Obligations in the amount of \$1,558,106 represent obligations collected by the State Treasurer and not remitted to the CRDA as of December 31, 1988 for the licensees' 1983 obligations (see Note 13).

#### 5. INVESTMENT OBLIGATIONS

- A. Obligations collected from licensees are held in the Reinvestment Fund until projects are approved by the CRDA's Board of Directors. At that time, they are used for the purpose of purchasing bonds issued by the CRDA for financing approved projects and licensees' direct investment projects or purchasing bonds of the New Jersey Development Authority for Small Businesses, Minorities, and Women's Enterprises.
- B. Current obligations represent amounts incurred by licensees under the CRDA statute and are based upon 1.25% of their gross revenues. Payments are due quarterly on April 15, July 15, October 15, and January 15, for the preceding quarter.
- C. Prior obligations represent amounts incurred by licensees operating prior to the 1984 establishment of the CRDA and are based upon 2% of their gross revenues. As of December 31, 1988, all licensees have made payments of obligations accrued prior to January 1, 1984 with the exception of Elsinore Shore Associates (Atlantis) and Resorts International Hotel, Inc. (Resorts). For financial reporting purposes, amounts outstanding are recorded as deferred investment obligations.
- D. During 1985, Atlantis filed for protection under Chapter 11 of the U.S. Bankruptcy Code. On October 1, 1988, a reorganization plan was approved with respect to the required payments to be made by Atlantis. Under the reorganization plan, Atlantis will make payments of the unpaid and due amounts beginning on October 1, 1988 until a date approximately seven years later to satisfy, in full, its unpaid obligations to CRDA.



E. Resorts has not made full payments for the years 1980 to 1983 for a total of \$10,781,558. Resorts has claimed direct investment credit for a project started prior to the creation of the CRDA. Management believes that either payment of the prior obligations will be made or the direct investment will be approved for such amount.

#### 6. PROJECT AND DIRECT INVESTMENT COMMITMENTS AND DISBURSEMENTS

During 1988, the CRDA committed approximately \$10.2 million in current and future CRDA obligations to finance direct investment and other projects.

As of December 31, 1988, the CRDA had made cumulative commitments and disbursements as follows:

Project	Commitments	.....Disbursements.....	
		Bonds	Direct Investment
Atlantic City:			
Jacobs Family Terrace	\$ 11,563,843	\$ 37,232	\$ 7,551,243
Northwest Inlet	6,800,000	1,802,798	
Vermont Plaza	21,000,000	21,000,000	
Regency and Victorian Court	36,464,579	16,981,620	12,346,327
Northeast Inlet Phase I	68,823,345		483,879
Landmark Group	880,000		
South Jersey:			
Edison Plaza	3,000,000		
Roebling Market	3,293,900		
BCCAP	350,000		
North Jersey -			
Monticello Ave.	1,160,000		
Total	<u>\$153,335,667</u>	<u>\$39,821,650</u>	<u>\$20,381,449</u>

#### 7. ALLOCATION OF OBLIGATION DEPOSITS

The CRDA is required by Statute to allocate obligations received to South Jersey, North Jersey and to Atlantic City. The CRDA is also required to set aside \$1,200,000 annually for the purpose of investing in obligations of the New Jersey Development Authority for Small Businesses, Minorities and Women's Enterprises (SBMWE). As of December 31, 1988, the CRDA has allocated obligation deposits as follows:

Atlantic City	\$100,092,903
South Jersey	3,318,824
North Jersey	829,706
SBMWE	6,000,000
Total	<u>\$110,241,433</u>

8. DONATED OBLIGATIONS

In November 1988, Atlantis submitted a petition to donate its Atlantic City obligations to the CRDA. The CRDA Board accepted the amount of approximately \$4 million for application on a future date to an eligible project or projects in accordance with N.J.S.A. 5:12-177. Upon such application, Atlantis will receive credit in the amount of approximately \$3.6 million towards its future Atlantic City obligations.

9. DIRECTORS AND OFFICERS LIABILITY INSURANCE

On January 10, 1986 the CRDA received an opinion from the Attorney General of the State of New Jersey, stating that the CRDA is entitled to immunity from liability for its policy decisions as provided in the Tort Claims Act; however, the Act does not immunize the CRDA against all possible damage claims. On August 8, 1986, the CRDA approved the establishment of a \$1,000,000 Indemnification Fund by committing obligation deposits of the Reinvestment Fund.

Each year, the CRDA is required to reduce the commitment of the Reinvestment Fund by \$250,000 and establish a reserve in the Operating Fund in an equal amount. In the event any amount of the Indemnification Fund is used for purposes for which it has been established, the CRDA will replenish that amount from operating revenue but not more than \$250,000 per year.

At December 31, 1988, \$750,000 is reserved in the Operating Fund and \$250,000 is committed in the Reinvestment Fund.

10. LAND BANKING

A. The CRDA's Board of Directors has authorized the acquisition of land parcels within the Northeast Inlet section of Atlantic City to facilitate the implementation of the Northeast Inlet Redevelopment Plan. During 1988, the CRDA expended \$798,255 for the acquisition of real estate held for resale to developers of future CRDA approved projects. The CRDA had reserved \$2 million of its operating fund's unrestricted fund equity for such purpose during 1988, and \$1,201,745 remained available at December 31, 1988 for land acquisition upon authorization by CRDA.

B. At December 31, 1988, the CRDA has escrowed funds totaling \$75,206 for the purchase of land parcels in the Northeast Inlet section of Atlantic City. CRDA expects to complete the transactions and receive title to the land parcels within sixty days.

11. FIDELITY BOND

The CRDA has a \$100,000 Honesty Blanket Bond supplied by Pennsylvania National Mutual Casualty Insurance Company covering all of its employees.

12. BUDGETARY REQUIREMENTS

The CRDA operates under a budget approved by its Board. The annual operating budget is submitted by the last day of October of each year to the State Treasurer for approval.

13. SUBSEQUENT EVENTS

During the period January 1, 1989 to January 12, 1989, the CRDA disbursed a total of \$4,322,769 in bonds and direct investment, and the State of New Jersey transferred obligations held at December 31, 1988 to the CRDA (see Note 4).

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