

***Atlantic City  
Convention Center  
Authority***

*Financial Statements for the Years Ended  
December 31, 2004 and 2003 and  
Independent Auditors' Report*

# ATLANTIC CITY CONVENTION CENTER AUTHORITY

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## INDEPENDENT AUDITORS' REPORT

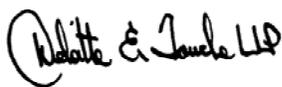
Chair and Members of the Board  
Atlantic City Convention Center Authority  
Atlantic City, New Jersey

We have audited the accompanying statements of net assets of Atlantic City Convention Center Authority (the "Authority"), a component unit of the New Jersey Sports and Exposition Authority ("NJSEA"), as of December 31, 2004 and 2003, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of December 31, 2004 and 2003, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the Authority's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



March 17, 2005

# ATLANTIC CITY CONVENTION CENTER AUTHORITY

## MANAGEMENT'S DISCUSSION AND ANALYSIS

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### **Introduction to the annual report**

This annual report consists of three parts: Management's Discussion and Analysis, Financial Statements and Notes to the Financial Statements.

### *Management's Discussion and Analysis*

This section of the Atlantic City Convention Center Authority's (the "Authority") financial statements, Management's Discussion and Analysis ("MD&A"), presents an overview of the Authority's operations and financial performance during the years ended December 31, 2004 and 2003. 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 a 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 Statement of Cash Flows. Specifically, the Statement 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 provide 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, the Historic Boardwalk Hall, and the West Hall.

- The Atlantic City Convention & Visitors Authority serves as the destination's principal marketing arm, stimulating economic growth through convention, business and leisure tourism development. The Atlantic City Convention & Visitors Authority is funded primarily through marketing fees, which are imposed on hotels in Atlantic City.
- The New Jersey Sports and Exposition Authority ("NJSEA") is the owner and, through the Atlantic City Convention Center Authority, has engaged SMG, to provide management services for the Atlantic City Convention Center, Boardwalk Hall, and West Hall.
- The Atlantic City 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 Historic 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.
- 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 Boardwalk Hall and provides additional parking for the same.

- The Convention Center, Historic 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 Atlantic City Convention Center, the Historic Boardwalk Hall, and the West Hall to cover the operational deficits and capital expenditures of the facilities.

## **Financial Analysis**

The following sections will discuss the significant changes in the Authority's financial position for 2004. 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 Generally Accepted Accounting Principles.

## **Highlights**

Operating revenues were up \$2,570,000, due to higher service income, parking revenue, and promotional reimbursements from 2003. Operating expenses were held in line compared to 2003 by reducing salaries, wages and benefits, a reduction in bad debt expense, lower grid related expenses and controlling production costs at both facilities. The Authority's net assets increased by \$1,562,000 in 2004, which represents a \$324,000 increase over 2003. The primary reason for this increase was additional marketing fee revenues. Marketing fee revenue is the primary funding source of the Marketing Operations Segment of the Authority, and it represents the Atlantic City hotel occupancy tax that Marketing Operations receives from the state. In 2004, over 900 hotel rooms were added to the Atlantic City hotel room inventory, which helped to produce the additional marketing fee revenue.

The Authority's total assets increased \$2,681,000 to \$13,995,000 in 2004. This increase was due in large part to the \$1,447,000 increase in Marketing Operations' total assets in 2004. The increase in total assets, and more specifically cash, is due to the \$1,562,000 increase in net assets for the year, due to the delay in the revitalization incentive program, established by the Casino Reinvestment Development Program ("CRDA"), which would have redirected marketing fee revenue back to hotel properties in Atlantic City with capital projects approved by CRDA. That marketing fee revenue remained with the Authority. The program was to be implemented by the end of 2004, however it was delayed until 2005, which caused a substantial increase in cash. Boardwalk Hall total assets increase is due in large part to advance ticket sales for the subsequent year events.

Boardwalk Hall's net operating performance increased \$1,096,000 in 2004 primarily as a result of the increases in event-related revenues such as special services, facility rentals and concession income compared to the reduction in salaries and wages, bad debt expense and grid related costs. The Convention Center's net operating performance increased \$1,676,000 in 2004 as a result of the higher event-related revenues such as special services, parking and concession income. There was also a reduction of \$ 243,000 in production expenses, salaries and wages, insurance and bad debt expenses.

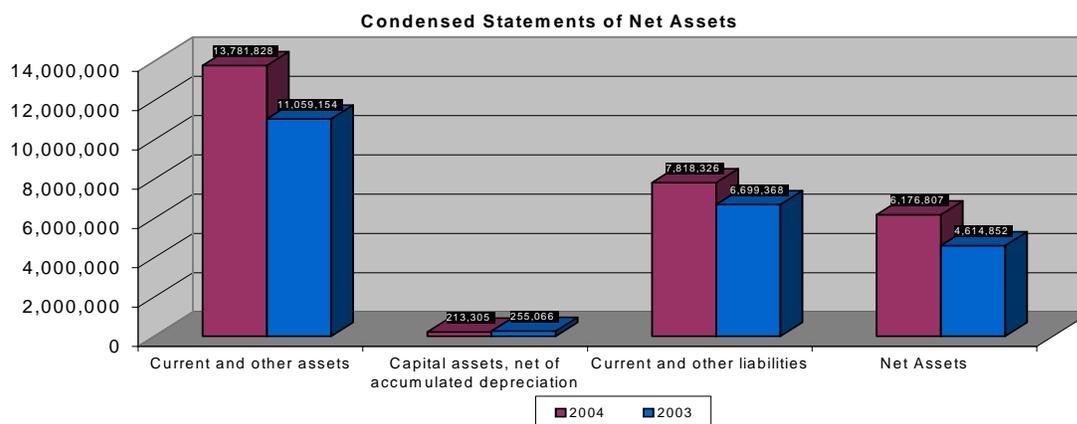
## Financial Summaries

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

### EXHIBIT 1

#### Condensed Statements of Net Assets

	December 31, 2004	December 31, 2003
Current and other assets	\$ 13,781,828	\$ 11,059,154
Capital assets, net of accumulated depreciation	<u>213,305</u>	<u>255,066</u>
Total assets	13,995,133	11,314,220
Current and other liabilities	<u>(7,818,326)</u>	<u>(6,699,368)</u>
Net assets	<u>\$ 6,176,807</u>	<u>\$ 4,614,852</u>



Current and other assets increased \$2,722,000 dollars in 2004 to \$13,782,000 largely as a result of Marketing Operations' \$1,489,000, and Boardwalk Hall and Convention Centers' \$1,233,000 increases 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, accrued expenses, and deferred revenue.

## EXHIBIT 2

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

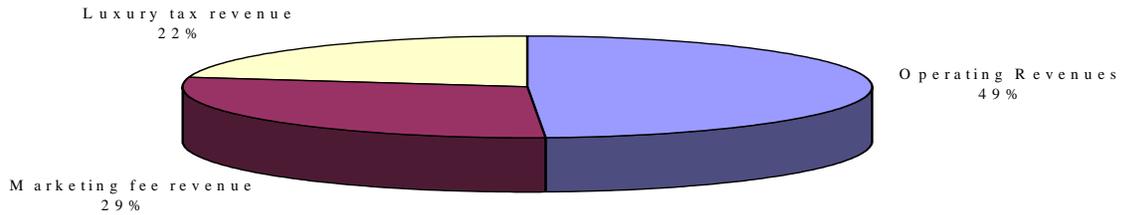
	Year Ended December 31, 2004	Year Ended December 31, 2003
Operating revenues	\$ 16,785,753	\$ 14,215,578
Operating expenses	<u>(32,744,441)</u>	<u>(32,712,454)</u>
Operating loss	<u>(15,958,688)</u>	<u>(18,496,876)</u>
Nonoperating income:		
Luxury tax revenue	7,538,431	10,308,368
Marketing fee revenue	9,899,943	9,362,657
Interest income	<u>82,269</u>	<u>63,734</u>
Total nonoperating income	<u>17,520,643</u>	<u>19,734,759</u>
Increase in net assets	<u>\$ 1,561,955</u>	<u>\$ 1,237,883</u>

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, which are the total revenues generated at the Convention Center, Boardwalk Hall, the West Hall, and the Marketing Operations Segment.
- Luxury tax revenue, which is received from NJSEA for the operating deficit of the Convention Center, Boardwalk Hall, and the West Hall.
- Marketing fee revenue, which is collected from the State, to promote the destination of Atlantic City.

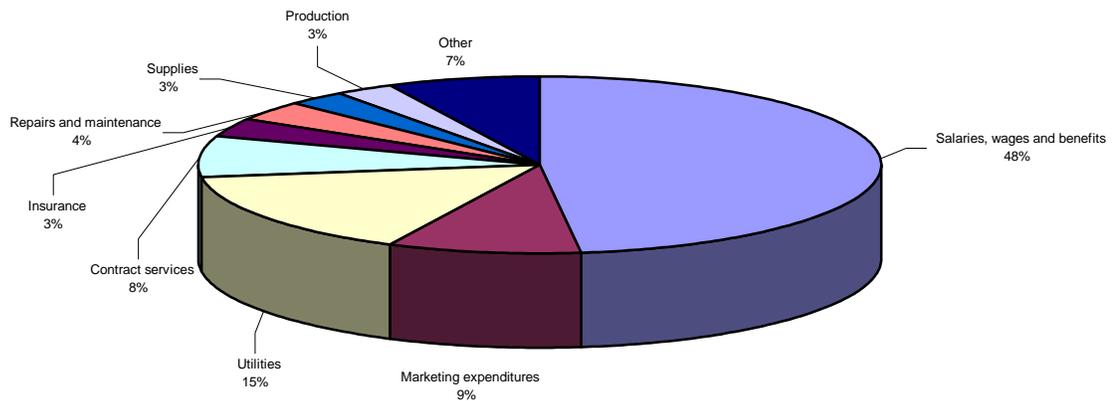
**Sources of Revenue  
2004**



Sources of expenses consisted of:

- Operating expenses, which are 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, which 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.

**Source of Expenses**



## Operating Highlights

### Attendance

	2004	2003	2002
Boardwalk Hall	337,095	401,963	427,053
Convention Center	<u>536,981</u>	<u>487,111</u>	<u>561,565</u>
	<u>874,076</u>	<u>889,074</u>	<u>988,618</u>

### Events

	2004	2003	2002
Boardwalk Hall	95	100	112
Convention Center	<u>207</u>	<u>224</u>	<u>176</u>
	<u>302</u>	<u>324</u>	<u>288</u>

### Operating Revenues & Expenses by Facility (000's)

	2004	2003	2002
Operating Revenues:			
Boardwalk Hall	\$ 4,855	\$ 4,441	\$ 3,692
Convention Center	10,721	9,288	9,268
Marketing Operations	<u>1,210</u>	<u>487</u>	<u>654</u>
	<u>\$ 16,786</u>	<u>\$ 14,216</u>	<u>\$ 13,614</u>
Operating Expenses:			
Boardwalk Hall	\$ 10,523	\$ 11,157	\$ 10,544
Convention Center	13,514	13,757	13,140
Marketing Operations	<u>8,707</u>	<u>7,798</u>	<u>7,944</u>
	<u>\$ 32,744</u>	<u>\$ 32,712</u>	<u>\$ 31,628</u>

Operating revenues for the Authority increased \$ 2,570,000 due to a \$998,000 increase in Special services revenue, an increase of \$641,000 in other revenue at both facilities, and Marketing Operations revenue increase of \$723,000. In 2004, Boardwalk Hall hosted several boxing events and ethnic concerts in the ballroom adding to the positive results. Operating expenses for the Authority increased only \$32,000 in 2004. Expenses remained consistent with 2003 by reducing salaries, wages and benefits, insurance expense, bad debt expense and lowering production costs.

Special services revenue increased by \$998,000 in 2004 for the Boardwalk Hall and the Convention Center primarily as a result of higher billable labor income, increased electrical services income and audio-visual income.

Marketing Operations revenue increase of \$723,000 is primarily due to Promotional Reimbursement-Regional Marketing Revenue of \$788,000. This revenue is a reimbursement of marketing cost, associated with the Joint Marketing Agreement, from the South Jersey Transportation Authority (SJTA).

Operating expenses were reduced at the Boardwalk Hall by \$ 634,000 and the Convention Center saw a reduction of \$ 243,000 due to a reduction in full time staff, utility expenses, and operating efficiency. Non-operating revenue at the Authority was lower by \$2,214,000 during 2004 as a result of the decrease in the luxury tax requirements, however marketing fees increased by \$537,000 as a result of a full year of revenue from 2,500 rooms added in July of 2003 and the addition of 900 hotel rooms in 2004.

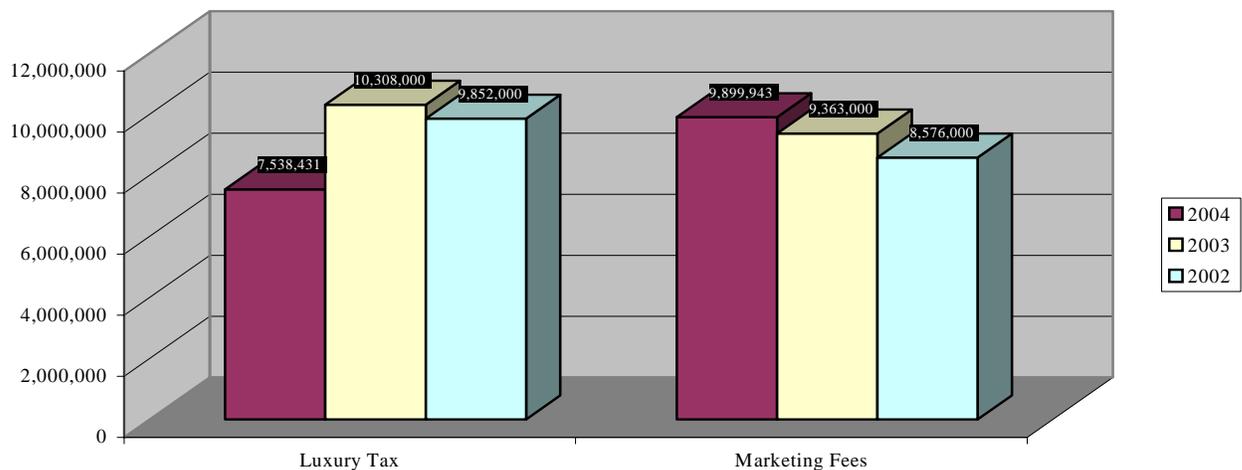
Salaries, wages and benefits for Marketing Operations increased \$231,000 in 2004 as a result of a \$123,000 increase in healthcare costs and pension expense, and the addition of three convention sales personnel added to Marketing Operation from the Convention Center. There was also a staff assistant for convention services and a managers' position for the Foundation filled during part of 2004. All of these positions were vacant in 2003.

The Marketing expenditures increase of \$405,000 in 2004 is primarily due to the \$476,000 increase in Marketing Operations expenditures, mainly \$545,000 in advertising expenses. The Contracted services increase of \$946,000 in 2004 is primarily due to the \$572,000 increase in Marketing Operations contract services, mainly \$583,000 in professional services-other. These costs in Marketing Operation are associated with the Joint Marketing Agreement and are offset by the increase of \$788,000 in Promotional Reimbursement-Regional Marketing Revenue. The majority of the balance in Contract services is higher electrical services expense and reimbursed labor expense at Boardwalk Hall and the Convention Center.

**Nonoperating Highlights (000's)**

	2004	2003	2002
Nonoperating Revenues			
Luxury Tax	\$ 7,538	\$ 10,308	\$ 9,852
Marketing Fees	<u>9,899</u>	<u>9,363</u>	<u>8,576</u>
	<u>\$ 17,437</u>	<u>\$ 19,671</u>	<u>\$ 18,428</u>

**Nonoperating Revenues**



Luxury tax revenue is received from NJSEA from the available Luxury Tax receipts to cover the operating deficit of the Atlantic City Convention Center, the Boardwalk Hall, and the West Hall. The Luxury tax requirements decreased by \$2,770,000 or approximately twenty seven percent (27%) as a result of operational efficiencies at the Boardwalk Hall and the Convention Center.

Marketing fee revenue increased \$537,000 or 5.74 percent (5.74%) in 2004 as a result of over 900 new hotel rooms being put into service during the year and the full year of operation of 2500 hotel rooms added in July 2003.

### **EXHIBIT 3**

#### **Capital Assets**

	<b>Balance, December 31, 2003</b>	<b>Additions</b>	<b>Balance, December 31, 2004</b>
Computer equipment	\$ 490,080	\$ 7,505	\$ 497,585
Furniture, fixtures and equipment	<u>376,323</u>	<u>44,089</u>	<u>420,412</u>
Total at cost	866,403	51,594	917,997
Less accumulated depreciation	<u>(611,337)</u>	<u>(93,355)</u>	<u>(704,692)</u>
Capital assets, net	<u>\$ 255,066</u>	<u>\$ (41,761)</u>	<u>\$ 213,305</u>

At the end of 2004, the Authority had invested \$213,305 in net capital assets, at a cost of \$917,996 net of accumulated depreciation of \$704,692.

Capital asset additions during 2004 consisted substantially of renovation to the Boardwalk Information Center, office furniture, and computer equipment. The Authority considers any asset with a value over \$5,000 and an estimated useful life over one year, a depreciable asset.

#### **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 our 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 you have questions about this report or need additional financial information, contact the Director of Finance at the Atlantic City Convention and Visitors Authority, 2314 Pacific Avenue, Atlantic City, NJ 08401, or visit our website at: [www.atlanticcitynj.com](http://www.atlanticcitynj.com).

# ATLANTIC CITY CONVENTION CENTER AUTHORITY

## STATEMENTS OF NET ASSETS DECEMBER 31, 2004 AND 2003

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	2004	2003
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents (Note 4)	\$ 8,327,360	\$ 5,475,438
Due from the State of New Jersey—marketing fees (Note 3)	1,467,796	1,520,199
Due from New Jersey Sports and Exposition Authority (Note 3)	1,699,175	1,642,536
Receivables, net of allowance for doubtful accounts of \$110,098 in 2004 and \$272,577 in 2003, respectively	1,329,352	1,304,837
Prepaid expenses and other assets	<u>958,145</u>	<u>1,116,144</u>
Total current assets	13,781,828	11,059,154
Capital assets, net of accumulated depreciation (Note 5)	<u>213,305</u>	<u>255,066</u>
TOTAL	<u>\$ 13,995,133</u>	<u>\$ 11,314,220</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 4,437,176	\$ 5,043,902
Deferred revenue	<u>3,381,150</u>	<u>1,655,466</u>
Total liabilities	<u>7,818,326</u>	<u>6,699,368</u>
NET ASSETS:		
Invested in capital assets	213,305	255,066
Unrestricted	<u>5,963,502</u>	<u>4,359,786</u>
Total net assets	<u>6,176,807</u>	<u>4,614,852</u>
TOTAL	<u>\$ 13,995,133</u>	<u>\$ 11,314,220</u>

See notes to financial statements.

# ATLANTIC CITY CONVENTION CENTER AUTHORITY

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS YEARS ENDED DECEMBER 31, 2004 AND 2003

	<b>2004</b>	<b>2003</b>
REVENUES:		
Special services	\$ 6,395,610	\$ 5,398,161
Facilities rental	4,516,191	4,564,504
Parking	1,960,839	1,869,776
Concessions	1,526,131	1,473,024
Promotion reimbursement	1,527,587	701,785
Travel media showcase	12,149	6,900
Other	<u>847,246</u>	<u>201,428</u>
Total operating revenues	<u>16,785,753</u>	<u>14,215,578</u>
EXPENSES:		
Salaries, wages and benefits	15,730,344	15,892,821
Marketing expenditures	3,007,708	2,602,943
Utilities	5,069,039	4,845,261
Contract services	2,514,751	1,568,326
Insurance	1,044,611	1,155,781
Repairs and maintenance	1,160,934	1,128,954
Supplies	975,727	1,063,022
Professional fees	247,799	351,607
Management fees	773,396	766,000
Bad debt expense	61,081	557,295
Parking participation	190,000	190,000
Depreciation	93,355	125,146
Grid collapse	340,106	541,582
Production	859,564	1,013,207
Other	<u>676,026</u>	<u>910,509</u>
Total operating expenses	<u>32,744,441</u>	<u>32,712,454</u>
OPERATING LOSS	<u>(15,958,688)</u>	<u>(18,496,876)</u>
NONOPERATING REVENUE:		
Interest	82,269	63,734
Marketing fee revenue (Note 3)	9,899,943	9,362,657
Luxury tax revenue (Note 3)	<u>7,538,431</u>	<u>10,308,368</u>
Total nonoperating revenue	<u>17,520,643</u>	<u>19,734,759</u>
INCREASE IN NET ASSETS	1,561,955	1,237,883
NET ASSETS—Beginning of year	<u>4,614,852</u>	<u>3,376,969</u>
NET ASSETS—End of year	<u>\$ 6,176,807</u>	<u>\$ 4,614,852</u>

See notes to financial statements.

# ATLANTIC CITY CONVENTION CENTER AUTHORITY

## STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2004 AND 2003

	2004	2003
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers	\$ 18,486,922	\$ 13,759,285
Payments to suppliers	(17,226,560)	(16,010,282)
Payments to employees	<u>(15,873,253)</u>	<u>(15,876,617)</u>
Net cash used in operating activities	<u>(14,612,891)</u>	<u>(18,127,614)</u>
<b>CASH FLOWS FROM NON-CAPITAL ACTIVITIES:</b>		
Luxury tax revenue	7,481,792	10,189,197
Marketing fee revenue	<u>9,952,346</u>	<u>9,966,547</u>
Net cash provided by non-capital financing activities	<u>17,434,138</u>	<u>20,155,744</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES—</b>		
Additions to capital assets	<u>(51,594)</u>	<u>(103,364)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES—</b>		
Interest collected	<u>82,269</u>	<u>63,734</u>
<b>INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,851,922	1,988,500
<b>CASH AND CASH EQUIVALENTS—Beginning of year</b>	<u>5,475,438</u>	<u>3,486,938</u>
<b>CASH AND CASH EQUIVALENTS—End of year</b>	<u>\$ 8,327,360</u>	<u>\$ 5,475,438</u>
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Operating loss	\$ (15,958,688)	\$ (18,496,876)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	93,355	125,146
(Increase) decrease in assets:		
Receivables, net	(24,515)	239,634
Prepays and other assets	157,999	17,835
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(606,726)	682,574
Deferred revenues	<u>1,725,684</u>	<u>(695,927)</u>
<b>NET CASH USED IN OPERATING ACTIVITIES</b>	<u>\$ (14,612,891)</u>	<u>\$ (18,127,614)</u>

See notes to financial statements.

# ATLANTIC CITY CONVENTION CENTER AUTHORITY

## NOTES TO FINANCIAL STATEMENTS YEARS ENDED DECEMBER 31, 2004 and 2003

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### 1. BACKGROUND AND AUTHORIZING LEGISLATION

Chapter 459 of P.L. 1981, approved on January 12, 1982 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 existing Atlantic City Convention Center, as well as the new 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 revitalization incentive 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 to be implemented before the end of 2004; however, it will not be implemented until 2005.

### 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, 2004 and 2003 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 and furniture and fixtures 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 of the Historic Boardwalk Hall and the Convention Center are recorded on 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.

**Change in Accounting**—The Authority has not yet adopted or evaluated the impact that will result from adopting GASB Statements No. 45, "Accounting and Financial Reporting by Employers for Post Retirement Benefits Other than Pensions", which takes effect in 2006.

### 3. LUXURY TAX AND MARKETING FEES

Pursuant to NJSA 40:48.21A, the State Treasurer directs the luxury tax collected by the State of New Jersey to the Sports Authority. The Sports Authority will utilize these funds to pay the debt service on the bonds issued by the Sports Authority for construction of the Convention Center and to fund any deficit at year-end to the extent available.

Luxury tax funds were used as follows for the years ended December 31:

	<b>2004</b>	<b>2003</b>
Luxury tax collected	\$ 21,322,354	\$ 18,420,000
Interest earned on collected funds	286,000	190,000
Debt service payments	(12,021,000)	(11,733,000)
Operating deficit	(7,538,000)	(10,308,000)
Funds to be used for maintenance items	<u>(2,361,000)</u>	<u>(2,620,000)</u>
 Luxury tax deficit	 <u>\$ (311,646)</u>	 <u>\$ (6,051,000)</u>

The luxury tax deficit is funded by the Sports Authority from the Maintenance Reserve/Working Capital Fund, which was created to fund future debt service payments and operating deficits.

Effective March 1, 1992, New Jersey legislature adopted a bill, which authorized the Authority to impose fees ("Marketing Fees") on hotels in Atlantic City. The proceeds from the fees collected pursuant to this legislation are collected by the State of New Jersey and paid into a special fund established and held by the Authority. The Authority recognizes marketing Fees as revenue when the fees are assessed. Expenses are recognized as liabilities when incurred.

### 4. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are as of December 31:

	<b>2004</b>		<b>2003</b>	
	<b>Book Balance</b>	<b>Bank Balance</b>	<b>Book Balance</b>	<b>Bank Balance</b>
Demand deposits State of New Jersey Cash	\$ 3,649,074	\$ 4,825,769	\$ 1,140,017	\$ 1,865,474
Management Fund	<u>4,678,286</u>	<u>4,878,286</u>	<u>4,335,421</u>	<u>4,335,421</u>
 Total cash and cash equivalents	 <u>\$ 8,327,360</u>	 <u>\$ 9,704,055</u>	 <u>\$ 5,475,438</u>	 <u>\$ 6,200,895</u>

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; (b) bonds or obligations of any state of the United States 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 Moody's and S&P; and (f) 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 with the bank. At December 31, 2004, the Authority's demand deposits were fully secured by collateral security lodged with the Sports Authority's Bank.

## 5. CAPITAL ASSETS

Capital assets consist of the following at December 31:

	<b>2003</b>	<b>Additions</b>	<b>2004</b>
Computer equipment	\$ 490,080	\$ 7,505	\$ 497,585
Furniture, fixtures and equipment	<u>376,323</u>	<u>44,089</u>	<u>420,412</u>
Total at cost	866,403	51,594	917,997
Less accumulated depreciation	<u>(611,337)</u>	<u>(93,355)</u>	<u>(704,692)</u>
Capital assests, net of accumulated depreciation	<u>\$ 255,066</u>	<u>\$ (41,761)</u>	<u>\$ 213,305</u>

These amounts represent capital costs incurred by the Atlantic City Convention Center Authority. The costs 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 one year a capital asset.

## **6. 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 Authority. The payroll for employees covered by PERS for the years ended December 31, 2004 and 2003 was \$2,704,425 and \$2,550,258, respectively. The Authority's total payroll for the years ended December 31, 2004 and 2003 was \$3,099,349 and \$2,970,153, respectively.

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

Covered Authority employees are required by PERS to contribute a percentage of their salary based on their age at the time of their enrollment. The Authority is required by State statute to contribute the remaining amounts necessary to pay benefits when due. PERS certify the amount of the Authority'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 contributions required for the years ended December 31, 2004 and 2003 were \$129,418 (4.8%) and \$124,868 (4.8%), respectively. The employees made the contribution for 2004 and 2003.

## **7. COMMITMENTS AND CONTINGENCIES**

1. A portion of the Authority's operating revenues are attributable to leasing of the Atlantic City Convention Center and Historic Boardwalk Hall facilities for various conventions, trade shows, sporting events and other expositions. Rental income is a fee based on square foot of utilization, flat fee per event or a percentage of ticket sales. Rental income, under these leases, was approximately \$4,516,191 and \$4,564,504 for the years ended December 31, 2004 and 2003, respectively.
2. The Authority is the subject of, or a party to, various pending or threatened legal actions involving outside interests. The Authority believes that any ultimate liability arising from these actions should not have a material effect on its financial position or operations.

3. On May 14, 2001, The Historic Boardwalk Hall, L.L.C. entered into a three-year license agreement with two one-year options with operators of an East Coast Hockey League franchise to play in Boardwalk Hall. The Authority, per agreement, guaranteed revenue to the hockey franchise for the first three years of the contract. Net ticket sales of full season tickets, partial season tickets and group sales tickets of twenty or more are guaranteed at \$720,000 for the first hockey season, \$540,000 for the second hockey season, and \$360,000 for the third hockey season. This guarantee covered the three years ended December 31, 2003, and the Authority supplemented the shortfalls during this period. The Authority made actual payments to the hockey franchise to cover shortfalls of \$0 and \$47,000 for the years ended December 31, 2004 and 2003, respectively. The Historic Boardwalk Hall extended the contract, dated July 1, 2004 for one additional year and there were no provisions for a guaranteed revenue source under the terms and conditions of the extension.
4. In September 1999, the Authority entered into a joint advertising and marketing agreement with the South Jersey Transportation Authority. 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.
5. The Authority is a party to an on-going 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 2004 and 2003, respectively.

## 8. INFORMATION ON AUTHORITY OPERATIONS BY OPERATING SEGMENT

The Authority has three responsibilities: operation of the Boardwalk 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, 2004					Year Ended December 31, 2003				
	Boardwalk Center Operations	New Center	Marketing Operations	Elimination Entries	Combined December 31, 2004	Boardwalk Center Operations	New Center	Marketing Operations	Elimination Entries	Combined December 31, 2003
<b>OPERATING REVENUES:</b>										
Special services	\$ 3,243,194	\$ 3,893,281	\$ -	\$ (740,865)	\$ 6,395,610	\$ 2,681,704	\$ 3,409,610	\$ -	\$ (693,153)	\$ 5,398,161
Facilities rental	1,251,629	3,264,562	-	-	4,516,191	1,418,018	3,146,486	-	-	4,564,504
Parking	177,786	1,783,053	-	-	1,960,839	181,468	1,688,308	-	-	1,869,776
Concessions	502,247	1,023,884	-	-	1,526,131	599,972	873,052	-	-	1,473,024
Promotion reimbursement and fees	225,422	130,453	1,171,712	-	1,527,587	188,659	54,733	458,393	-	701,785
Travel media showcase	-	-	12,149	-	12,149	-	-	6,900	-	6,900
Other	345,927	625,546	25,773	(150,000)	847,246	213,930	116,287	21,211	(150,000)	201,428
	<u>5,746,205</u>	<u>10,720,779</u>	<u>1,209,634</u>	<u>(890,865)</u>	<u>16,785,753</u>	<u>5,283,751</u>	<u>9,288,476</u>	<u>486,504</u>	<u>(843,153)</u>	<u>14,215,578</u>
<b>OPERATING EXPENSES:</b>										
Salaries, wages and benefits	6,028,795	5,657,368	4,044,181	-	15,730,344	6,108,297	5,970,967	3,813,557	-	15,892,821
Marketing expenditures	150,281	2,175	3,593,575	(738,323)	3,007,708	175,350	610	3,117,357	(690,374)	2,602,943
Utilities	2,048,228	2,853,699	169,654	(2,542)	5,069,039	1,963,473	2,683,030	201,537	(2,779)	4,845,261
Contract services	70,146	1,472,883	971,722	-	2,514,751	15,005	1,122,983	430,338	-	1,568,326
Insurance	9,667	1,010,129	24,815	-	1,044,611	16,987	1,119,712	19,082	-	1,155,781
Repairs and maintenance	276,423	692,258	192,253	-	1,160,934	305,221	663,543	160,190	-	1,128,954
Supplies	383,515	501,030	91,182	-	975,727	393,636	519,065	150,321	-	1,063,022
Professional fees	-	123,100	124,699	-	247,799	71,037	186,964	93,606	-	351,607
Management fees	386,698	386,698	-	-	773,396	383,000	383,000	-	-	766,000
Bad debts expense	1,482	57,386	2,213	-	61,081	349,396	206,695	1,204	-	557,295
Parking participation	-	190,000	-	-	190,000	-	190,000	-	-	190,000
Depreciation	-	-	93,355	-	93,355	-	-	125,146	-	125,146
Grid Collapse	340,106	-	-	-	340,106	541,582	-	-	-	541,582
Production	603,971	255,593	-	-	859,564	602,107	411,100	-	-	1,013,207
Other	223,904	311,637	290,485	(150,000)	676,026	232,031	299,493	528,985	(150,000)	910,509
	<u>10,523,216</u>	<u>13,513,956</u>	<u>9,598,134</u>	<u>(890,865)</u>	<u>32,744,441</u>	<u>11,157,122</u>	<u>13,757,162</u>	<u>8,641,323</u>	<u>(843,153)</u>	<u>32,712,454</u>
<b>OPERATING LOSS</b>	<u>(4,777,011)</u>	<u>(2,793,177)</u>	<u>(8,388,500)</u>	<u>-</u>	<u>(15,958,688)</u>	<u>(5,873,371)</u>	<u>(4,468,686)</u>	<u>(8,154,819)</u>	<u>-</u>	<u>(18,496,876)</u>
<b>NONOPERATING INCOME:</b>										
Interest	19,462	12,295	50,512	-	82,269	23,810	9,879	30,045	-	63,734
Marketing fee revenue (Note 3)	-	-	9,899,943	-	9,899,943	-	-	9,362,657	-	9,362,657
Luxury tax revenue (Note 3)	4,757,549	2,780,882	-	-	7,538,431	5,849,561	4,458,807	-	-	10,308,368
	<u>4,777,011</u>	<u>2,793,177</u>	<u>9,950,455</u>	<u>-</u>	<u>17,520,643</u>	<u>5,873,371</u>	<u>4,468,686</u>	<u>9,392,702</u>	<u>-</u>	<u>19,734,759</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<u>-</u>	<u>-</u>	<u>1,561,955</u>	<u>-</u>	<u>1,561,955</u>	<u>-</u>	<u>-</u>	<u>1,237,883</u>	<u>-</u>	<u>1,237,883</u>
<b>NET ASSETS—Beginning of year</b>	<u>-</u>	<u>-</u>	<u>4,614,852</u>	<u>-</u>	<u>4,614,852</u>	<u>-</u>	<u>-</u>	<u>3,376,969</u>	<u>-</u>	<u>3,376,969</u>
<b>NET ASSETS— End of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,176,807</u>	<u>\$ -</u>	<u>\$ 6,176,807</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,614,852</u>	<u>\$ -</u>	<u>\$ 4,614,852</u>

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