

## OFFICIAL STATEMENT DATED NOVEMBER 26, 2013

Rating: S&P: See "RATING" herein

### NEW ISSUE

### BOOK-ENTRY ONLY

*In the opinion of Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey, Bond Counsel ("Bond Counsel") to the City (as defined herein), under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance with certain covenants described herein, interest on the Bonds (as defined herein) (i) is not includable in gross income for Federal income tax purposes pursuant to Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), and (ii) will not be treated as a preference item under Section 57 of the Code for purposes of calculating the Federal alternative minimum tax; such interest will, however, be included in the adjusted current earnings of a corporation for purposes of the Federal alternative minimum tax imposed on corporations. Bond Counsel is further of the opinion that, under existing laws of the State of New Jersey, interest on the Bonds and any gain on the sale thereof is not includable in gross income under the New Jersey Gross Income Tax Act. See "TAX MATTERS" herein.*

**City of Atlantic City  
in the County of Atlantic, New Jersey  
\$13,901,000 General Obligation Bonds, Series 2013  
and  
\$48,976,000 Tax Appeal Refunding Bonds, Series 2013**

Dated: Date of Delivery

Due: December 1, as shown on the inside front cover

The \$13,901,000 General Obligation Bonds, Series 2013 (the "General Obligation Bonds") and \$48,976,000 Tax Appeal Refunding Bonds, Series 2013 (the "Tax Appeal Bonds" and together with the General Obligation Bonds, the "Bonds") of the City of Atlantic City, in the County of Atlantic, New Jersey (the "City") will each be issued in the form of one certificate for the aggregate principal amount of each series of the Bonds maturing in each year and when issued will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"), which will act as Securities Depository (as defined herein) for the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Interest on the Bonds will be payable semiannually on June 1<sup>st</sup> and December 1<sup>st</sup> (each an "Interest Payment Date") in each year until maturity or prior redemption, commencing on June 1, 2014. Principal of and interest on the Bonds will be paid to DTC by the City or its designated paying agent. Interest on the Bonds will be credited to the participants of DTC as listed on the records of DTC as of each May 15<sup>th</sup> and November 15<sup>th</sup> (the "Record Dates") preceding an Interest Payment Date. The Bonds are subject to redemption prior to their stated maturities, as described herein. See "DESCRIPTION OF THE BONDS-Redemption" herein.

The Tax Appeal Bonds are issued pursuant to: (i) the Local Bond Law, N.J.S.A. 40A:2-1 et seq., as amended and supplemented (the "Local Bond Law"); (ii) a refunding bond ordinance duly and finally adopted by the City Council of the City on October 9, 2013 and (iii) a resolution adopted by the City Council of the City on November 13, 2013. Proceeds of the Tax Appeal Bonds will be used to: (i) fund certain judgments and settlements related to property tax appeals; and (ii) pay the costs of issuance with respect to the Tax Appeal Bonds.

The General Obligation Bonds are issued pursuant to: (i) the Local Bond Law; (ii) a bond ordinance duly and finally adopted by the City Council of the City on September 25, 2013 and (iii) a resolution adopted by the City Council of the City on November 13, 2013. Proceeds of the General Obligation Bonds will be used to: (i) fund various capital improvements of the City; and (ii) pay the costs of issuance with respect to the General Obligation Bonds.

The Bonds are valid and legally binding obligations of the City and, unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable real property within the City for the payment of the principal of Bonds and the interest thereon without limitation as to rate or amount.

*The Bonds are offered when, as and if issued, and delivered to the Underwriter, subject to prior sale, withdrawal or modification of the offer without notice and to the approval of legality thereof by the law firm of Wilentz, Goldman & Spitzer, P.A. Woodbridge, New Jersey ("Bond Counsel"), and certain other conditions described herein. Acacia Financial Group, Inc., Marlton, New Jersey, has served as financial advisor in connection with the issuance of the Bonds. Delivery of the Bonds is anticipated to be at the offices of the City's Bond Counsel or at such other place as agreed to with the Underwriter on or about December 12, 2013.*

**BofA Merrill Lynch**

**City of Atlantic City  
in the County of Atlantic, New Jersey**

**\$13,901,000 General Obligation Bonds, Series 2013  
and  
\$48,976,000 Tax Appeal Refunding Bonds, Series 2013**

<u>Year</u> <u>(December 1)</u>	<u>General Obligation</u> <u>Bonds</u>	<u>Tax Appeal</u> <u>Bonds</u>	<u>Combined</u> <u>Amount</u>	<u>Rate</u>	<u>Yield</u>
2014	\$615,000	-	\$615,000	3.00%	1.00%
2015	615,000	-	615,000	4.00	1.25
2016	790,000	-	790,000	5.00	1.50
2017	816,000	\$756,000	1,572,000	5.00	1.88
2018	835,000	755,000	1,590,000	5.00	2.36
2019	860,000	7,125,000	7,985,000	5.00	2.82
2020	890,000	6,680,000	7,570,000	5.00	3.27
2021	920,000	6,235,000	7,155,000	5.00	3.64
2022	950,000	6,055,000	7,005,000	5.00	3.92
2023	990,000	5,790,000	6,780,000	5.00	4.16
2024	1,030,000	4,145,000	5,175,000	5.00	4.32
2025	1,070,000	4,315,000	5,385,000	5.00	4.46
2026	1,115,000	890,000	2,005,000	5.00	4.59
2027	1,175,000	890,000	2,065,000	5.00	4.72
2028	1,230,000	890,000	2,120,000	5.00	4.85
2029	-	890,000	890,000	5.00	4.97
2030	-	890,000	890,000	5.00	5.08
2031	-	890,000	890,000	5.00	5.15
2032	-	890,000	890,000	5.00	5.22
2033	-	890,000	890,000	5.00	5.28

**CITY OF ATLANTIC CITY,  
IN THE COUNTY OF ATLANTIC, NEW JERSEY**

**MAYOR**

Lorenzo T. Langford

**COUNCIL MEMBERS**

William Marsh, President  
Frank M. Gilliam, Jr., Vice President  
Moisse Delgado  
Rizwan Malik  
Timothy Mancuso  
Steven L. Moore  
Aaron Randolph  
Marty Small  
George Tibbitt

**ADMINISTRATION OFFICIALS**

Ronald L. Cash, Business Administrator  
Michael P. Stinson, CPA, Director of Revenue and Finance  
Joanne M. Shepherd, Chief Financial Officer  
Rhonda Williams, City Clerk

**CITY AUDITORS**

Kenneth More, CPA, RMA  
Ford-Scott & Associates  
Ocean City, New Jersey

**FINANCIAL ADVISOR**

Acacia Financial Group, Inc.  
Marlton, New Jersey

**BOND COUNSEL**

Wilentz, Goldman & Spitzer, P.A.  
Woodbridge, New Jersey

**CITY SOLICITOR**

Braun D. Littlefield, Esq.  
Atlantic City, New Jersey

No broker, dealer, salesperson or other person has been authorized by the City to give any information or to make any representations with respect to the Bonds (as defined herein) other than those contained in this Official Statement, and, if given or made, such information or representations must not be relied upon as having been authorized by the foregoing. The information contained herein has been provided by the City and other sources deemed reliable by the City; however, no representation or warranty is made as to its accuracy or completeness and such information is not to be construed as a representation of accuracy or completeness and such information is not to be construed as a representation of warranty by the Underwriters or, as to information from sources other than itself, by the City. The information and the expressions of opinion herein are subject to change without notice, and neither the delivery of this Official Statement nor any sale hereunder shall, under any circumstances, create any implication that there has been no change in any of the information herein since the date hereof, or the date as of which such information is given, if earlier.

References in this Official Statement to laws, rules, regulations, resolutions, agreements, reports and documents do not purport to be comprehensive or definitive. All references to such documents are qualified in their entirety by reference to the particular document, the full text of which may contain qualifications of and exceptions to statements made herein.

This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor there be any sale of the Bonds in any jurisdiction in which it is unlawful for any person to make such an offer, solicitation or sale. No dealer, broker, salesperson or other person has been authorized to give any information or to make any representations other than as contained in this Official Statement. If given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriter.

Upon issuance, the Bonds will not be registered under the Securities act of 1933, as amended, will not be listed on any stock or other securities exchange and neither the Securities and Exchange Commission, nor any other federal, state, municipal or other governmental entity, other than the City (subject to the limitations set forth above), will have passed upon the accuracy or adequacy of this Official Statement.

This Official Statement includes the cover page, inside cover page and the Appendices attached hereto. The Underwriter have been authorized by the City to print the Bond yields and/or prices on the inside front cover page and their names on the front cover, together with the interest rates per annum for the various maturities of the Bonds on the inside front cover page.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The order and placement of materials in this Official Statement, including the Appendices, are not to be deemed to be a determination of relevance, materiality or importance, and the Official Statement, including the Appendices, must be considered in its entirety.

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## **OFFICIAL STATEMENT OF**

**City of Atlantic City**  
**In the County of Atlantic, New Jersey**  
**\$13,901,000 General Obligation Bonds, Series 2013**  
**and**  
**\$48,976,000 Tax Appeal Refunding Bonds, Series 2013**

### **INTRODUCTION**

This Official Statement, including the cover page, inside front cover page and the appendices annexed hereto, has been prepared by the City of Atlantic City, in the County of Atlantic, New Jersey (the “City”) in connection with the sale and issuance of its \$13,901,000 General Obligation Bonds, Series 2013 (the “General Obligation Bonds”) and \$48,976,000 Tax Appeal Refunding Bonds, Series 2013 (the “Tax Appeal Bonds” and together with the General Obligation Bonds, the “Bonds”). This Official Statement has been executed by and on behalf of the City by the Chief Financial Officer and the Director of Revenue and Finance and its distribution and use in connection with the sale of the Bonds has been authorized by the City.

The Official Statement contains specific information relating to the Bonds including their general description, certain matters affecting the financing, certain legal matters, historical financial information and other information pertinent to this issue. This Official Statement should be read in its entirety.

All financial and other information presented herein has been provided by the City from its records, except for information expressly attributed to other sources. The presentation of information, is intended to show recent historic information and is not necessarily indicative of future or continuing trends in the financial position or other affairs of the City.

### **DESCRIPTION OF THE BONDS**

The following is a summary of certain provisions of the Bonds. Reference is made to the Bonds themselves for the complete text thereof, and the discussion herein is qualified in its entirety by such reference.

#### **Terms and Interest Payment Dates**

The Bonds shall be dated the date of delivery and shall mature on December 1<sup>st</sup> in each of the years and in the amounts set forth on the inside front cover page hereof. The Bonds shall bear interest from their date of delivery which interest shall be payable semi-annually on the first days of June and December (each an “Interest Payment Date”), commencing June 1, 2014, in each of the years and at the interest rates set forth on the inside front cover page hereof until maturity or prior redemption, as applicable, by the City or a duly appointed paying agent to the registered owners of the Bonds as of each May 15<sup>th</sup> and November 15<sup>th</sup> immediately preceding the respective Interest Payment Dates (the “Record Date”). So long as The Depository Trust Company, New York, New York (“DTC”), or its nominee, Cede & Co., is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the City or a designated paying agent directly to DTC or its nominee, Cede & Co., which will in turn remit such payments to DTC participants, which will in turn remit such payments to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein.

## **Redemption**

The Bonds maturing prior to December 1, 2024 are not subject to redemption prior to their stated maturities. The Bonds maturing on or after December 1, 2024 are subject to redemption prior to their stated maturities, in whole or in part, on any date on or after December 1, 2023, upon notice of redemption as provided herein, at a price of 100% of the par amount to be redeemed (the “Redemption Price”), plus accrued interest to the date fixed for redemption.

## **Notice of Redemption**

Notice of redemption shall be given by mailing by first class mail in a sealed envelope with postage prepaid to the registered owners of the Bonds not less than thirty (30) days, nor more than sixty (60) days prior to the date fixed for redemption. Such mailing shall be to the Owners of such Bonds at their respective addresses as they last appear on the registration books kept for that purpose by the City or a duly appointed Bond Registrar. So long as DTC (the “Depository Trust Company”)(or any successor thereto) acts as securities depository for the Bonds (Securities Depository”), such Notice of Redemption shall be sent directly to such Securities Depository and not to the Beneficial Owners of the Bonds. Any failure of the Securities Depository to advise any of its participants or any failure of any participant to notify any Beneficial Owner of a Notice of Redemption shall not affect the validity of the redemption proceedings. If the City determines to redeem a portion of the Bonds prior to maturity, the Bonds to be redeemed shall be selected by the City; the Bonds to be redeemed having the same maturity shall be selected by the Securities Depository in accordance with its regulations.

## **Authorization and Purpose of the Bonds**

### The General Obligation Bonds

#### Purpose

Proceeds of the General Obligation Bonds will be used to: (i) fund various capital improvements in the aggregate amount of \$14,690,000; and (ii) pay the costs of issuance with respect to the General Obligation Bonds. The General Obligation Bonds are being issued to fund (a) improvements to various City-owned buildings including, but not limited to, various fires stations and Sandcastle Stadium, (b) improvements to the boardwalk, dunes and beachfront outfalls, (c) improvements to storm water drains and seawalls, (d) technology upgrades including, but not limited to, laptops, printers, servers and software, (e) the demolition of various properties, (f) the acquisition of furniture, fixtures and equipment, (g) the remediation of various city owned properties including parks and playgrounds, (h) road and sidewalk improvements, (i) the replacement of traffic signals, (j) the acquisition of vehicles for various departments, (k) the repairs and reconstruction of Venice Lagoon and Ohio Avenue Bridge, (l) emergency management infrastructure upgrades, and (m) the acquisition and replacement of safety equipment including, but not limited to, lifeboat oars, beach wheelchairs, beach radios and crowd control fences.

#### Authorization

The General Obligation Bonds have been authorized and are issued pursuant to the laws of the State, including the Local Bond Law, a bond ordinance of the City finally adopted on September 25, 2013, entitled “BOND ORDINANCE PROVIDING FOR VARIOUS CAPITAL IMPROVEMENTS OF THE CITY OF ATLANTIC CITY, IN THE COUNTY OF ATLANTIC, NEW JERSEY, APPROPRIATING THE AGGREGATE AMOUNT OF \$15,250,000 AND AUTHORIZING THE ISSUANCE OF \$14,693,250 BONDS OR NOTES OF THE CITY TO FINANCE A PORTION OF THE COST THEREOF” and by a resolution duly adopted by the City Council of the City on November 13, 2013. The Local Finance Board, in the Division of Local Government Services, New Jersey Department of Community Affairs (the “Local Finance Board”) approved the City for a waiver of the down payment



requirement for the bond ordinance for certain improvements related to damage caused by Super Storm Sandy in an amount of \$180,450, this request was approved on November 13, 2013.

## The Tax Appeal Bonds

### Background

During calendar year 2008, the City implemented a City-wide real property revaluation. As a result of such revaluation, numerous real estate tax appeals were filed against the City seeking adjustment from the new real property valuations imposed by the City. Many of such appeals, in particular appeals filed by casinos, have been successful by the filers thereof, thus resulting in a reduction in the amount of property tax revenue collected by the City. The number of tax appeals and their success rate resulted in a fiscal operating deficit for the City in 2009. In addition, as a result of such successful tax appeals, in 2009 the City projected operational deficits to occur in 2010 and 2011. As a result of such projections, the City determined to issue tax appeal refunding bonds as permitted by applicable law. Specifically, in 2010, the City issued \$1,795,000 of its General Obligation Tax Appeal Refunding Bonds (Tax Exempt) and \$6,925,000 of its General Obligation Tax Appeal Refunding Bonds (Federally Taxable). In 2011, the City issued \$35,285,000 of its General Obligation Tax Appeal Refunding Bonds, to finance certain outstanding tax appeals over a period of five (5) years. In 2012, the City issued \$90,380,000 General Obligation Tax Appeal Refunding Bonds (Tax Exempt) over a period of twenty (20) years and \$2,620,000 General Obligation Tax Appeal Refunding Bonds (Federally Taxable) over a period of four (4) years.

The proceeds of the Tax Appeal Bonds will be used to fund several of the currently outstanding tax appeal settlements in the City (as described below) in order to offset the immediate fiscal impact of such tax appeals upon the City and to enable the City to operate under a balanced budget, all as more particularly described below under the subheadings “Purpose” and “Authorization”.

### Purpose

Proceeds of the Tax Appeal Bonds will be used to: (i) pay amounts owed to certain taxpayers in the City for tax liabilities resulting from court approved settlements and judgments of property tax appeals (as more particular described below); and (ii) pay the costs of issuance with the respect to the Tax Appeal Bonds.

The court approved settlements and judgments include settlements to be paid with the proceeds of the Tax Appeal Bonds to: (i) Tropicana Atlantic City Corp. in the approximate amount of \$49,500,000; (ii) the Madison House Group in the approximate amount of \$1,300,000; and (iii) Diversified-AC, LLC in the approximate total amount of \$1,110,000.

### Authorization

The Tax Appeal Bonds have been authorized and are issued pursuant to the laws of the State of New Jersey (the “State”), including the Local Bond Law, N.J.S.A. 40A:2-1 et seq., as amended and supplemented (the “Local Bond Law”), a refunding bond ordinance of the City finally adopted on October 9, 2013, entitled “REFUNDING BOND ORDINANCE AUTHORIZING THE ISSUANCE OF NOT TO EXCEED \$85,000,000 AGGREGATE PRINCIPAL AMOUNT OF TAX APPEAL REFUNDING BOND BY THE CITY OF ATLANTIC CITY, IN THE COUNTY OF ATLANTIC, STATE OF NEW JERSEY FOR THE PURPOSE OF PAYING AMOUNTS OWED TO TAXPAYERS FOR TAX LIABILITIES RESULTING FROM COURT APPROVED SETTLEMENTS AND JUDGMENTS OF PROPERTY TAX APPEALS AND APPROPRIATING THE PROCEEDS OF SUCH REFUNDING BONDS TO SUCH PURPOSE,” and by a resolution duly adopted by the City Council of the City on November 13, 2013 (the “Bond Resolution”). The Local Finance Board issued positive

findings with respect to the issuance of not to exceed \$55,000,000 of the Bonds by virtue of a resolution adopted on October 9, 2013.

### **OUTSTANDING TAX APPEALS**

In addition to the tax appeals previously settled and described above, the City has several other outstanding tax appeals with various real property owners in the City. Such outstanding tax appeals include, but are not limited to, tax appeals filed by certain property owners who are among the twenty-five highest tax paying entities in the City as set forth below:

<u>Name of Taxpayer</u>	<u>Taxpayer Ranking</u>	<u>Property Assessed</u>	<u>2013 Assessed Valuation</u>
Marina District Development Corp.*	1	Borgata Casino Hotel	\$2,260,470,200
Marina Assoc.	5	Harrah's Casino Hotel	1,469,980,700
Boardwalk Regency	7	Caesars Casino Hotel	1,048,906,600
Bally's Park Place, Inc	3	Bally's Park Place Casino Hotel	700,000,000
Showboat Atlantic City	11	Showboat Casino Hotel	625,000,000

\*Tax court decision was rendered in October 2013; As of November 1, 2013, it is the City's intention to appeal this decision. (See Appendix "A" for a more complete summary of the twenty-five highest paying taxpayers in the City.)

The City cannot and does not predict the outcome of any of such appeals, the financial impact of any of such appeals on the City or when such appeals may be resolved in their entirety. The City presently considers the Marina District Development Corp. (Borgata Casino Hotel) tax appeal judgment to potentially have an adverse, though manageable, impact on the City's tax base. In October 2013, the New Jersey Tax Court ruled that the Marina District Development Corp. property assessment should be reduced to \$880,000,000 for the year 2009 and \$870,000,000 for 2010 from the current valuation of \$2,260,470,200. As of November 1, 2013 it is the City's intention to appeal this decision. For a more complete discussion relative to tax assessments, collections, and appeals, generally, see discussion under heading "TAX ASSESSMENT AND COLLECTION".

The City is permitted, but not obligated, to fund the costs of any such finally adjudicated or settled tax appeals through the issuance of additional general obligation refunding bonds in accordance with, among other things, the provisions of the Local Bond Law. The City does not and cannot, however, make any statements or predictions regarding the issuance of additional indebtedness for such purpose.

### **BOOK-ENTRY ONLY SYSTEM**

The description which follows of the procedures and record keeping with respect to beneficial ownership interest in the Bonds, payment of principal and interest and other payments on the Bonds to DTC Participants or Beneficial Owners (as defined herein), confirmation and transfer of beneficial ownership interests in the Bonds and other related transactions by and between DTC, DTC Participants and Beneficial Owners, is based on certain information furnished by DTC to the City referred to herein as the "Issuer". Accordingly, the City does not make any representations as to the completeness or accuracy of such information.

DTC will act as securities depository of the Bonds. The Bonds will be issued as fully-registered Bonds of each series registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond certificate will be issued in the aggregate principal amount of the Bonds of each series, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com) and [www.dtc.org](http://www.dtc.org).

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Refunding Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from Issuer or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Bonds held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, Agent, or Issuer, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of Issuer or Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to Issuer or Agent. Under such circumstances, in the event that a successor depository is not obtained, Note certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry-only transfers through DTC (or a successor securities depository). In that event, Note certificates will be printed and delivered to DTC.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that Issuer believes to be reliable, but Issuer takes no responsibility for the accuracy thereof.

THE PAYING AGENT WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO SUCH DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEES WITH RESPECT TO THE PAYMENTS TO OR PROVIDING OF NOTICE FOR THE PARTICIPANTS, INDIRECT PARTICIPANTS, OR BENEFICIAL OWNERS.

SO LONG AS CEDE & CO. IS THE REGISTERED OWNER OF THE BONDS, AS NOMINEE OF DTC, REFERENCES HEREIN TO THE BONDHOLDERS OR REGISTERED OWNERS OF THE BONDS (OTHER THAN UNDER THE CAPTION "TAX MATTERS") SHALL MEAN CEDE & CO. AND SHALL NOT MEAN THE BENEFICIAL OWNERS OF THE BONDS.

#### **Discontinuance of Book-Entry-Only System**

If the City, in their sole discretion, determines that DTC is not capable of discharging its duties, or if DTC discontinues providing its services with respect to the Bonds at any time, the City will attempt to locate another qualified Securities Depository. If the City fails to find such Securities Depository, or if the City determines, in their sole discretion, that it is in the best interest of the City or that the interest of the Beneficial Owners might be adversely affected if the book-entry only system of transfer is continued, (the City undertakes no obligation to make an investigation to determine the occurrence of any

events that would permit it to make such determination) the City shall notify DTC of the termination of the book-entry only system.

In the event that the book-entry only system for the Bonds is discontinued, the City has provided that upon receipt of the Bond certificates from DTC and the Participant information, the City will authenticate (or cause to be authenticated) and deliver definitive Bonds to the holders thereof, and the principal of and interest on the Bonds will be payable directly to the holders thereof and the Bonds may thereafter be transferred or exchanged in the manner described in the Bond certificates so provided.

## **EFFECTS OF POST-TROPICAL STORM SANDY UPON THE CITY**

### **Background**

On October 29, 2012, Hurricane Sandy (the “Storm”) approached the northeastern portion of the United States and made landfall within miles of the City at approximately 8:00 p.m. At landfall, the Storm was categorized by the National Weather Service as a “post-tropical storm” due to the strength of prevailing winds.

### **Impact of the Storm upon the City**

#### General Damage

The City, like certain other portions of the State, was significantly impacted by the wind, rain and tidal surge generated by the Storm. The City was particularly impacted by the tidal surge that caused the Atlantic Ocean to breach the dunes and sea walls in several locations and likewise caused a rise in the median height of the inland bays. The combination of this tidal surge, together with wind and rain created by the Storm, caused temporary widespread flooding and associated property damage to certain portions of the City.

Most ocean tidal surge damage to the City occurred in the Inlet area of the City, located in the northeast portion of the City where the Atlantic Ocean meets Absecon Bay. Such damage included the destruction of a portion of the pedestrian boardwalk located along the Inlet. The portion of pedestrian boardwalk destroyed is located in a residential portion of the City and not along the larger commercial and pedestrian portions of the City. Moreover, the portion of the pedestrian boardwalk destroyed had been previously closed to pedestrian traffic and was slated for demolition and replacement prior to the arrival of the Storm. Contrary to media reports, there was virtually no damage to the City’s iconic pedestrian promenade and boardwalk fronting the casino areas of the City.

While temporary flooding occurred throughout the City, the most substantial flooding occurred in the Inlet area and in the City’s Chelsea section. Such flooding resulted in damage to various homes and businesses, but did not materially affect any casinos. The remainder of the flooding in the City resulted in widespread sand and debris displacement, but did not, according to ongoing reports by City officials, result in significant property loss.

#### Beaches

While the Storm resulted in the erosion of various portions of the City’s beaches, such erosion was not significant and is expected to be addressed through the City’s regularly planned beach replenishment program. However, to the extent that the City subsequently discovers that any significant beach erosion occurred as a result of the Storm, the City will undertake the appropriate replenishment and repair on an expedited basis.

### Utilities, Roadways, Transportation and Education

The City sustained short-term damage to certain of its utilities as a result of the Storm, including power lines and communications. However, as of the date hereof, all utilities have been restored and are fully functioning, including power, communications, water, sewer and gas. Certain precautions were initially imposed by the Atlantic City Municipal Utilities Authority relative to the use of drinking water immediately following the Storm, but such precautions have since been lifted.

There was no significant damage to the City's roadways as a result of the Storm, other than the required return of displaced sand from the roadways to the beaches of the City.

The School District has not reported any substantial damage to its facilities resulting from the Storm.

### Economic Impact

All Storm-related costs and expenses for damage to City-owned property were funded out of the City's budget, including budget transfers as permitted by applicable law. See "FINANCIAL MANAGEMENT – Budget Transfers" herein for a more complete discussion of budgeting procedures of the City. As of the date hereof, the City has appropriated approximately \$1,000,000 for Storm-related expenses, including costs for personnel and overtime but, based upon initial estimates, expects to incur additional costs related to damage to City-owned property resulting from wind, rain and flooding in the amount of \$6,000,000. Such Storm-related costs are expected to be funded with a combination of insurance proceeds from the City's property, casualty and flood insurance policies and certain federal grants provided by the Federal Emergency Management Agency and other federal agencies. The City further expects that such costs will be paid by the City in the first instance, with reimbursement to the City for such payments from insurance proceeds and federal grants. To the extent that insurance proceeds and federal grants do not cover all of the costs of damage incurred as a result of the Storm, the City does not expect such costs to have any material impact on its budget.

Although the City reasonably expects that all Storm-related costs and expenses will be paid for or reimbursed with insurance proceeds and federal grants, the City makes no assurances as to the availability of such funds to the City. If and to the extent that certain Storm related costs are not otherwise payable or reimbursable by insurance proceeds or federal grants, the City may issue additional indebtedness to finance such costs as permitted by applicable law. See "PROVISIONS FOR THE PROTECTION OF GENERAL OBLIGATION DEBT" and "FINANCIAL MANAGEMENT" herein for a more complete discussion related to the issuance of indebtedness.

To the extent that the City has made or will make expenditures for Storm-related costs and expenses, such expenditures, pursuant to applicable law, are considered "emergency appropriations" and automatically become a part of the City's subsequent fiscal year budget (and accounted for as a deferred charge) and, pursuant to applicable law, will not be subject to the appropriation "cap" or levy "cap" otherwise provided by the New Jersey Local Budget Law (N.J.S.A. 40A:4-1 et seq.). See "FINANCIAL MANAGEMENT" herein for a more complete discussion of the financial management of the City and the Local Budget Law.

Based upon current estimates of damage incurred and the fiscal position of the City, the City does not expect the impact of the Storm to materially affect the City's ability to pay any of its bonds or notes, including the Bonds. In addition, based upon current estimates of damages incurred and the current fiscal position of the City, the City does not expect the impact of the Storm to materially affect the cash position of the City to pay any of its current or near-term obligations, including operational and debt-related obligations.

The City, with this issuance of General Obligation Bonds, is funding certain improvements related to Storm damage such as (i) improvement to the boardwalk, dunes and outfalls consisting of, but not limited to, boardwalk reconstructions (including lumber, fasteners, and railing), beachfront outfalls and boardwalk ramps; (ii) various storm water and storm draining improvements consisting of, but not limited to, reconstruction & flood mitigation, bulkhead/outfall/street repair, and seawall reconstruction; (iii) repairs and reconstruction to Venice Lagoon and Ohio Avenue Bridge; and (iv) Emergency Management infrastructure upgrades and repair.

## **SECURITY AND SOURCE OF PAYMENT**

### **General**

The full faith, credit and taxing power of the City are available for the payment of the principal of the Bonds and the interest thereon. The Bonds will be valid and binding obligations of the City and, unless paid from other sources, are payable from *ad valorem* taxes levied upon all the taxable real property within the City without limitation as to rate or amount. The City is required to include the total amount of interest and debt redemption charges on all its general obligation indebtedness, including the Bonds, for the current year in each annual municipal budget.

The enforceability of rights or remedies with respect to such Bonds may be limited by bankruptcy, insolvency or other laws affecting creditors' rights or remedies heretofore or hereafter enacted.

The Bonds are not a debt obligation, legal or otherwise of the State or any political subdivision thereof, other than the City.

### **The City**

The City covers an area of approximately 12 square miles and borders the Atlantic Ocean in southern New Jersey. It lies about 65 miles southeast of Philadelphia and 125 miles south of New York City. The location and climate of the City traditionally enable it to maintain itself as a recreational and resort center. In addition, casino gaming (which is discussed further in detail in Appendix "A" under the heading "Legalized Casino Gaming") has, for more than 25 years, provided significant growth and another attraction to go along with the existing beaches, boardwalk and the Atlantic Ocean.

### **Local Government Supervision Act**

The Director (the "Director") of the Local Finance Board initiated an action in New Jersey Superior Court, Law Division – Atlantic County, with the consent and support of the City, seeking a judicial determination, pursuant to N.J.S.A. 52:27BB-55(6). The Director sought the approval of the court to require the City to be supervised by the Local Finance Board and the Director, pursuant to the provisions of Article IV of the "Local Government Supervision Act (1947)," N.J.S.A. 52:27BB-1 et seq. (the "Local Government Supervision Act"). The basic allegation made by the Director was that the City was unable to fund an operating deficit in its 2010 budget, thus jeopardizing the City's fiscal integrity.

On October 12, 2010, the court agreed with the Director's allegations about the City's finances and ordered that certain provisions of Article IV of the Local Government Supervision Act take effect. Specifically, the Director was authorized to seek a resolution from the Local Finance Board to place the City under the supervision of the Local Finance Board and the Director, pursuant to requirements of N.J.S.A. 52:27BB-56.

Accordingly, the Local Finance Board, on October 13, 2010, adopted a resolution as to the application to the City of Article 4 of the Local Government Supervision Act. Pursuant to the Local

government Supervision Act, the Commissioner of the New Jersey Department of Community Affairs, the State Treasurer and the Attorney General approved the resolution. Pursuant to such resolution, the Local Finance Board determined that various provisions of the Local Government Supervision Act shall be placed in effect in the City, including N.J.S.A. 52:27BB-55(6) (Compliance with requirements of law), N.J.S.A. 52:27BB-87 (Preparation of budgets), N.J.S.A. 52:27BB-55(6) (General duties of board), and N.J.S.A. 52:27BB-90 (Delegation of powers to director). To remain effective, the resolution must be renewed each year by the Local Finance Board and approved by two of the cabinet officers. On September 14, 2011, the Local Finance Board adopted, and the Commissioner of the New Jersey Department of Community Affairs and the Attorney General approved, a resolution to continue application of Article 4 of the Local Government Supervision Act through December 31, 2012.

In accordance with the resolution adopted on October 13, 2010, the Local Finance Board prepared a "Memorandum of Understanding" (the "Original MOU"), outlining the specific areas over which the Director will have direct supervision relating to the operations and finances of the City. On December 8, 2010, the City adopted a resolution acknowledging the contents of the Original MOU. Certain provisions of the Original MOU have since been removed or made less restrictive under the most recently approved "Memorandum of Understanding" (the "Revised MOU"). Some of the major provisions of the Revised MOU are as follows:

1. Certain requests for new employment positions must first be approved by the Director;
2. The imposition of salary restraints on all elected officials and non-contractual employees;
3. The hiring for the provision of legal services must first be approved by the Director;
4. Contracts and services pertaining to tax appeals, revaluation, or reassessments must be approved by the Director;
5. The City is not permitted to create any new services or expand existing services without seeking approval of the Director;
6. The City is not permitted to expend funds on any out-of-state travel or overnight stays in New Jersey without first obtaining the approval of the Director;
7. The City's Pay-to-Play Ordinance may not be modified without the approval of the Director;
8. The City is required to clearly communicate fiscal stress to unions and arbitrators and provide copies of such communications to the Director; and
9. The City is required to meet quarterly, or more often as requested by the Division, with the Director and staff to discuss budget and fiscal progress.

The provisions of the Revised MOU are subject to annual renewal by the City and the Local Finance Board. The Original MOU was renewed by both the State and the City for the year ending December 31, 2011. The Revised MOU was adopted by both the State and City for the year ending December 31, 2012 and remained in effect until December 31, 2012.

As a condition of the September 12, 2012 resolution issued by the Local Finance Board, the Local Finance Board required the City to remain under its supervision for calendar year 2013 substantially under the same terms and conditions that the City operates under the Revised MOU. The Local Finance Board on September 11, 2013 passed a resolution extending the supervision of the City. The City does not make any representations, statements or predictions regarding the continued supervision of the City's operations and finances by the Local Finance Board after December 31, 2013.

#### **PROVISIONS FOR THE PROTECTION OF GENERAL OBLIGATION DEBT**

The City has no constitutional limit on its power to incur indebtedness other than that it may issue obligations only for public purposes pursuant to State statutes. The authorization and issuance of City debt, including the purpose, amount and nature thereof, the method and manner of the incurrence of such debt, the maturity and terms of repayment



### Local Bond Law (N.J.S.A. 40A:2-1 ET SEQ.)

The Local Bond Law governs the issuance of Bonds and Notes by municipalities to finance certain general municipal and utility capital expenditures. Among its provisions are requirements that bonds must mature within the statutory period of usefulness of the projects bonded and that bonds must be retired in serial installments. A 5% cash down payment is generally required toward the financing of expenditures for municipal purposes. All Bonds issued by the City are general full faith and credit obligations.

### Local Budget Law (N.J.S.A. 40A:4-1 ET SEQ.)

The foundation of the New Jersey local finance system is the annual cash basis budget. Every local unit must adopt an annual operating budget in the form required by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"). Items of revenue and appropriation are regulated by law and the proposed operating budget must be certified by the Director of the Division (the "Director") prior to final adoption. The Local Budget Law requires the City to appropriate sufficient funds for payment of current debt service, and the Director is required to review the adequacy of such appropriations, among others, for certification.

The Local Budget Law limits anticipated tax revenues to the same proportion as actual cash collections bore to the total levy in the previous year and requires a reserve amount to be factored into the budget to make up for the expected shortfall in actual collections. The School District, Fire Districts and Atlantic County receive 100 percent of their tax levies, which are collected and paid to them by the City. Anticipated nontax revenues of the City are limited to the amount actually realized the previous year unless the Director of the Division authorizes a higher figure. Tax anticipation notes are limited in amount by law and must be paid off in full within 120 days of the close of the fiscal year.

The Director has no authority over individual operating appropriations, unless a specific amount is required by law, but the review functions, focusing on anticipated revenue, serve to protect the solvency of the City. The City budget by law and regulation of the Division must be in balance, on a cash basis, i.e., the total of anticipated revenues must equal the total of appropriations (N.J.S.A. 40A:4-22). If in any year a local unit's expenditures exceed its realized revenues for that year, then such excess must be raised in the succeeding year's budget.

### Capital Budget

In accordance with the Local Budget Law, the City must adopt and revise annually a six-year capital program. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures that the local unit may contemplate over the six years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method and financing or from the annual operating budget.

### Operation of Utilities

Municipal public utilities are supported, in addition to the general taxing power upon real property, by the revenues generated by the respective operations of the utilities. For each utility, there is established a separate budget. The anticipated revenues and appropriations for each utility are set forth in the separate budget. The budget is required to be balanced and to provide fully for debt service. The regulations regarding anticipation of revenues and deferral of charges apply equally to the budget of the utilities. Deficits or anticipated deficits in utility operations that cannot be provided for from utility surplus, if any, are required to be raised in the "Current Fund" or operating budget.

### Tax Levy Cap (N.J.S.A. 40A:4-45.44, et seq.)

Chapter 62 of P.L. 2007 imposes limitations on increases in the tax levies of municipalities, counties, and fire districts subject to various exclusions. Beginning with the preparation of Fiscal 2008 budget, the amount to be raised by taxation by a local unit shall not exceed the sum of new ratables, the adjusted tax levy, and the total of waivers approved by the Local Finance Board pursuant to section 11 of P.L. 2007, c.62 (C.40A:4-45.46). “New Ratables” means the product of the taxable value of any new construction or improvements times the tax rate of the local unit for its previous tax year. “Adjusted tax levy” means an amount not greater than the amount to be raised by taxation of the previous fiscal year, less any waivers from a prior fiscal year multiplied by 1.02, to which the sum of exclusions defined in subsection b. of section 10 of P.L. 2007, c.62 (C.40A:4-45.45) shall be added. Exclusions pursuant to this section are: (1) increases in amounts required to be raised for (a) all debt service and (b) lease payments with county improvement authorities in effect at the time of the passing of the legislation; (2) increases in amounts required to be raised to replace State formula aid due to a reduction in State formula aid from the previous local budget year; (3) increases in amounts for certain pension contributions set forth in section 5 of P.L. 2003, c.108 (C.40A:4-45.43) for the years set forth in that section; (4) any increase greater than four percent in the reserve for uncollected taxes that is required by law; (5) increases in health care costs equal to that portion of the actual increase in total health care costs for the budget year that is in excess of four percent of the total health care costs in the prior year, but is not in excess of the product of the total health care costs in the prior year and the average percentage increase of the State Health Benefits Program as annually determined by the Division of Pensions and Benefits in the Department of the Treasury; (6) notwithstanding the above provisions, when the appropriation for all debt service is less than the amount appropriated for all debt service in the prior fiscal year, the amount of the difference shall be deducted from the sum of the exclusions listed above as (1) through (5). If there are no exclusions, then the amount of the difference shall reduce the adjusted tax levy by that amount. Any cancelled or unexpended appropriations for any exclusion pursuant to this subsection or waiver, also shall be deducted from the sum of the exclusions listed above as (1) through (5) or directly reduce the adjusted tax levy if there are no exclusions. The Tax Levy Cap does not limit the obligations of the City to levy ad valorem taxes upon all taxable real property within the City to pay debt service on the Bonds.

### Appropriation “Cap”

A provision of law known as the New Jersey “Cap Law” (N.J.S.A. 40A:4-45.1 et seq.) imposes limitations on increases in municipal appropriations subject to various exceptions. The payment of debt service is an exception from this limitation. The Cap formula is somewhat complex, but basically, it permits a municipality to increase its overall appropriations by the lesser of 2.5% or the “Index Rate” if the index rate is greater than 2.5%. The “Index Rate” is the rate of annual percentage increase, rounded to the nearest one-half percent, in the Implicit Price Deflator for State and Local Government purchases of goods and services computed by the U.S. Department of Commerce. Exceptions to the limitations imposed by the Cap Law also exist for other things including capital expenditures; extraordinary expenses approved by the Local Finance Board for implementation of an interlocal services agreement; expenditures mandated as a result of certain emergencies; and certain expenditures for services mandated by law. Counties are also prohibited from increasing their tax levies by more than the lesser of 2.5% or the Index Rate subject to certain exceptions. Municipalities by ordinance approved by a majority of the full membership of the governing body may increase appropriations up to 3.5% over the prior year’s appropriation and counties by resolution approved by a majority of the full membership of the governing body may increase the tax levy up to 3.5% over the prior years’ tax levy in years when the Index Rate is 2.4% or less.

Additionally, new legislation constituting P.L. 2010, c. 44, effective July 13, 2010, imposes a two percent (2%) cap on the tax levy of a municipality, county, fire district or solid waste collection district, with certain exceptions and subject to a number of adjustments. The exclusions from the limit include

increases required to be raised for capital expenditures, including debt service, increases in pension contributions in excess of 2%, certain increases in health care over 2%, and extraordinary costs incurred by a local unit directly related to a declared emergency. The governing body of a local unit may request approval, through a public question submitted to the legal voters residing in its territory, to increase the amount to be raised by taxation, and voters may approve increases above 2% not otherwise permitted under the law by an affirmative vote of 50%.

The Division has advised that counties and municipalities must comply with both budget "CAP" and the tax levy limitation. Neither the tax levy limitation nor the "CAP" law, however, limits the obligation of the City to levy ad valorem taxes upon all taxable property within the boundaries of the City to pay debt service on Bonds.

In accordance with the Local Budget Law, each local unit must adopt and may from time to time amend rules and regulations for capital budgets, which rules and regulations must require a statement of capital undertakings underway or projected for a period not greater than over the next ensuing six years as a general improvement program. The capital budget, when adopted, does not constitute the approval or appropriation of funds, but sets forth a plan of the possible capital expenditures which the local unit may contemplate over the next six years. Expenditures for capital purposes may be made either by ordinances adopted by the governing body setting forth the items and the method of financing or from the annual operating budget if the terms were detailed.

#### Real Estate Taxes

N.J.S.A. 40A:4-29 of the Local Budget Law governs anticipation of delinquent tax collections: "The maximum which may be anticipated is the sum produced by the multiplication of the amount of delinquent taxes unpaid and owing to the local unit on the first day of the current fiscal year by the percentage of collection of delinquent taxes for the year immediately preceding the current fiscal year".

N.J.S.A. 40A:4-41 of the Local Budget Law provides with regard to current taxes that: "Receipts from the collection of taxes levied or to be levied in a municipality or, in the case of a county, for general county purposes and payable in a fiscal year, shall be anticipated in an amount which is not in excess of the percentage of taxes levied and payable during the next preceding fiscal year which was received in cash by the last day of the preceding fiscal year."

This provision and N.J.S.A. 40A:4-40 require that an additional amount (the "Reserve for Uncollected Taxes") be added to the tax levy to balance the budget so that when the percentage of the prior year's tax collection is applied to the combined total, the product will be at least equal to the tax levy required to balance the budget. The reserve for uncollected taxes requirement is calculated as follows:

The tax levy required to balance this budget, divided by the prior year's percentage of current tax collections (or lesser percentage) levied, will equal the total taxes to be levied for the current fiscal year.

#### Miscellaneous Revenues

N.J.S.A. 40A:4-26 in the Local Budget Law provides that: "No miscellaneous revenues from any source shall be included as an anticipated revenue in the budget in an amount in excess of the amount actually realized in cash from the same source during the next preceding fiscal year, unless the Director shall determine upon application by the governing body that the facts clearly warrant the expectation that such excess amount will actually be realized in cash during the fiscal year and shall certify such determination, in writing, to the local unit".

No budget or amendment thereof shall be adopted unless the Director shall have previously certified his approval thereof, with the exception of inclusion of categorical grants-in-aid contracts for their face amount with an offsetting appropriation. The fiscal years for such grants rarely coincide with a

local governmental unit's calendar fiscal year. Grant revenue is generally not realized until received in cash.

#### Deferral of Current Expenses

Emergency appropriations (those made after the adoption of the budget and determination of the tax rate) may be authorized by the City Council. With minor exceptions, however, such appropriations must be included in full in the following year's budget. Under the Cap Law, any emergency appropriation must be declared by resolution in accordance with the Local Budget Law, must be approved by at least two-thirds of the City Council and must be approved by the Director. When such appropriations exceed 3% of the adopted operating budget, consent of the Director must be obtained.

The exceptions are certain enumerated quasi-capital projects ("special emergencies") such as ice, snow, and flood damage to streets, roads, and bridges which may be amortized over three years; and tax map preparation, re-evaluation programs, revision and codification of ordinances, master plan preparations, and drainage map preparation for flood control purposes which may be amortized over five years.

#### Budget Transfers

Budget transfers provide a degree of flexibility and afford a control mechanism. Transfers between major appropriation accounts are prohibited until the last two months of the year. Although sub-accounts within an appropriation account are not subject to the same year-end transfer restriction, they are subject to internal review and approval.

#### Local Fiscal Affairs Law (N.J.S.A. 40A:5-1 ET SEQ.)

This law regulates the non-budgetary financial activities of local governments. An annual, independent audit of the local unit's accounts for the previous year must be performed by a licensed Registered Municipal Accountant. The audit, conforming to the Division of Local Government Services "Requirements of Audit", includes recommendations for improvement of the local unit's financial procedures and must be filed with the Clerk of the local governmental unit and with the Director within six (6) months after the close of the local unit's fiscal year, unless the Director extends the time to complete and file the audit. A synopsis of the audit report, together with all recommendations made, must be published in a local newspaper within 30 days of its completion.

The Finance Officer of every local unit must file annually with the Director a verified statement of the financial condition of the local unit. The entire annual audit report is filed with the Municipal Clerk and is available for review during business hours.

#### Debt Limit

The authorized bonded indebtedness of the City is limited by statute, subject to the exceptions noted below, to an amount equal to 3-1/2% of its stated equalized valuation basis. The stated equalized valuation basis of the City is set by statute as the average for the last three years of the equalized value of all taxable real property and improvements and certain Class II railroad property within its boundaries as annually determined by the State Board of Taxation. Certain categories of debt are permitted by statute to be deducted for purposes of computing the statutory debt limit.

The Bonds are included in the computation of debt for the purpose of the statutory debt limit. The issuance of the Bonds will not cause the City's indebtedness to exceed the statutory limit. At December 31, 2012, the City's statutory net debt as a percentage of average equalized valuation was 1.347%. As noted above, the statutory limit is 3-1/2%.

### Exceptions to Debt Limit

The City may exceed its debt limit with the approval of the Local Finance Board. If all or any part of the proposed debt authorization would exceed its debt limit, the City must apply to the Local Finance Board for an extension of credit. If the Local Finance Board determines that a proposed debt authorization would not materially impair the credit of the City or substantially reduce the ability of the City to meet its obligations or to provide essential services or make other statutory determinations, approval is granted. In addition to the aforesaid, debt in excess of the debt limit may be issued to fund certain notes, to provide for self-liquidating purposes and, in each fiscal year, to provide for purposes in an amount not exceeding two-thirds of the amount budgeted in such fiscal year for the retirement of outstanding obligations (exclusive of obligations issued for utility or assessment purposes).

### School Debt

State law permits local school districts, upon approval of the voters, to authorize school district debt, including debt in excess of its independent debt limitation by using the available borrowing capacity of the City. If such debt is in excess of the school district debt limit and the remaining borrowing capacity of the City, the State Department of Education and the Local Finance Board must approve the proposed debt authorization before it is submitted to the voters.

The School District debt limit is 4% of the City's equalized valuation basis as evaluated by the state.

### Property Tax Reform

In recent years, the New Jersey Legislature has considered various proposals to lessen the dependence of local governments on property taxes and to find alternative means to fund vital governmental services.

In November, 2006, the voters approved a constitutional amendment which dedicated the annual revenue derived from ½% of the 7% State sales tax for the purpose of property tax reform. In 2006, the Legislature also created four joint legislative committees to review and formulate proposals that address (i) public school funding reform; (ii) government consolidation and shared services; (iii) public employee benefits reform; and (iv) property tax reform (including through amendments to the State Constitution), and Governor Corzine also introduced a Blueprint for Property Tax Relief and Reform, calling for legislative consideration of a number of proposals, including a 4% cap in the annual increase in property tax bills.

Any legislation or constitutional amendments which alter the existing system of real property taxation in New Jersey may adversely affect the security and/or market value of bonds, notes and other obligations of counties and municipalities (such as the City).

### Short-Term Financing

The City may issue short-term "bond anticipation notes" to temporarily finance a capital improvement or project in anticipation of the issuance of bonds, if the bond ordinance or subsequent resolution so provides. Bond anticipation notes for capital improvements may be issued in an aggregate amount not exceeding the amount specified in the ordinance, as amended and supplemented, creating such capital expenditure less, generally, a cash downpayment of 5%. Bond anticipation notes may be issued and renewed for one-year periods, with the final maturity not exceeding ten years plus the period from the notes' maturity to the end of the fiscal year in which the notes mature plus four months in the

next following fiscal year from the date of original issuance. Beginning in the third year, the amount of notes that may be issued is decreased by three annual minimum pay-downs, each in the minimum amount required for the first year's principal payment for a bond issue.

### Pension Plan

Employees of the City of Atlantic City who are eligible for a pension plan are enrolled in pension systems administered by the Division of Pensions, Treasury Department of the State of New Jersey. The state-administered plans are: The Public Employees' Retirement System; the Police and Firemen's Retirement System; and the Defined Contribution Retirement Program ("DCRP"). The DCRP was established July 1, 2007, under the provisions of Chapter 92, P.L. 2007 and Chapter 103, P.L. 2007, and expanded under the provisions of Chapter 89, P.L. 2008. The DCRP provides eligible members with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. The plans are funded annually based on the projected benefit method with aggregate level, normal cost and frozen initial unfunded accrued liability. The plans, which cover public employees throughout the state, do not maintain separate records for each reporting unit.

### Annual Financial Statements (N.J.S.A. 40a:5-12 et seq.)

An annual financial statement ("Annual Financial Statement") which sets forth the financial condition of a local unit for the fiscal year must be filed with the Division of Local Government Services not later than January 26 (in the case of a county) and not later than February 10 (in the case of a municipality) after the close of the calendar fiscal year, such as the City, or not later than August 10 of the State fiscal year for those municipalities which operate on the State fiscal year. The Annual Financial Statement is prepared either by the Chief Financial Officer or the Registered Municipal Accountant for the local unit. It reflects the results of operations for the year of the Current and Utility Funds. If the Statement of Operations results in a cash deficit, the deficit must be included in full in the succeeding year's budget. The entire annual audit report is filed with the Clerk of the local unit and is available for review during business hours.

### Investment of Municipal Funds

Investment of funds by municipalities is governed by N.J.S.A. 40A:5-14 et seq. Such statute requires municipalities to adopt a Cash Management Plan pursuant to the requirements outlined by said statute. Once a municipality adopts a Cash Management Plan, it must deposit or invest its funds pursuant to such Plan. N.J.S.A. 40A:5-15.1 provides for the permitted securities a municipality may invest in pursuant to its Cash Management Plan. Some of the permitted securities are as follows: (a) obligations of, or obligations guaranteed by, the United States of America ("Government Obligations"); (b) Government money market mutual funds which invest in securities permitted under the statute; (c) bonds of certain Federal Government agencies having a maturity date not greater than 397 days from the date of purchase; (d) bonds or other obligations of the particular municipality or school districts of which the local unit is a part or within which the school district is located; and (e) bonds or other obligations having a maturity date not greater than 397 days from the date of purchase and approved by the Division of Investment, in the New Jersey Department of the Treasury. Municipalities are required to deposit their funds in banks satisfying certain security requirements set forth in N.J.S.A. 17:9-41 et seq. Municipalities are required to deposit their funds in interest-bearing bank accounts to the extent practicable and other permitted investments.

### Accounting and Reporting Practices

The accounting policies of the City conform to the accounting principles applicable to local governmental units which have been prescribed by the State of New Jersey Division of Local Government Services. A modified accrual basis of accounting is followed with minor exceptions.

Revenues are recorded as received in cash except for certain amounts which may be due from other governmental units and which are accrued. Receivables for property taxes are recorded with offsetting reserves on the balance sheet of the City's Current Fund; accordingly, such amounts are not recorded as revenue until collected. Other amounts that are due to the City which are susceptible to accrual are also recorded as receivables with offsetting reserves and recorded as revenue only when received. Expenditures are generally recorded on the accrual basis, except that unexpended appropriations at December 31, unless cancelled by the Governing Body, are reported as expenditures with offsetting appropriation reserves. Appropriation reserves are available, until lapsed at the close of the succeeding fiscal year, to meet specific claims, commitments or contracts incurred during the preceding fiscal year. Lapsed appropriation reserves are credited to the results of operations. As is the prevailing practice among municipalities and counties in the State, the City does not record obligations for accumulated unused vacation and sick pay.

### **ABSENCE OF MATERIAL LITIGATION**

There is no litigation of any nature now pending, or to the knowledge of the solicitor for the City, Braun D. Littlefield, Esq, threatened restraining or enjoining the issuance or the delivery of the Bonds, or the levy or the collection of any taxes to pay the principal of or the interest on the Bonds, or in any manner questioning the authority or the proceedings for the issuance of the Bonds or for the levy or the collection of taxes, or contesting the corporate existence or the boundaries of the City or the title of any of the present officers. Moreover, no litigation is presently pending, or to the knowledge of the solicitor for the City, threatened that, in the opinion of the solicitor for the City, would have a material adverse impact on the financial condition of the City if adversely decided. A certificate to such effect will be executed by the solicitor for the City, and delivered to the purchaser of the Bonds at the closing.

### **TAX ASSESSMENT AND COLLECTION**

#### **Assessment and Collection of Taxes**

Property valuations (assessments) are determined on true values as arrived at by the cost approach, market data approach and capitalization of net income (where applicable). Current assessments are the result of maintaining new assessments on a "like" basis with established comparable properties for newly assessed or purchased properties resulting in a decline of the assessment ratio to true value to its present level. This method assures equitable treatment to like property owners.

Upon the filing of certified adopted budgets by the City, the local school district and the County, the tax rate is struck by the County Board of Taxation based on the certified amounts in each of the taxing districts for collections to fund the budgets. The statutory provisions for the assessment of property, levying of taxes and the collection thereof are set forth in N.J.S.A. 54:4-1 et seq. Special taxing districts are permitted in New Jersey for various special services rendered to the properties located within the special district.

Tax bills are sent in June of the current fiscal year. Taxes are payable in four quarterly installments on February 1, May 1, August 1 and November 1. The August and November tax bills are determined as the full tax levied for municipal, county and school purposes for the current municipal fiscal year, less the amount charged for the February and May installments for municipal, county and school purposes in the current fiscal year. The amounts due for the February and May installments are determined by the municipal governing body as either one-quarter or one-half of the full tax levied for municipal, county or school purposes for the preceding fiscal year.

Tax installments not paid on or before the due date are subject to interest penalties of eight percent (8%) on the first \$1,500 of the delinquency and, then eighteen percent (18%) per annum on any amount in excess of \$1,500. A penalty of up to six percent (6%) of the delinquency in excess of \$10,000

may be imposed on a taxpayer who fails to pay that delinquency prior to the end of the tax year in which the taxes become delinquent. Delinquent taxes open for one year or more are annually included in a tax sale in accordance with State statutes. Tax title liens are periodically assigned to the City Attorney (as defined herein) for *in rem* foreclosures in order to acquire title to these properties.

The provisions of Chapter 99 of the Laws of New Jersey of 1997 allow a municipality to sell its total property tax levy to the highest bidder either by public sale with sealed bids or by public auction. The purchaser shall pay the total property tax levy bid amount in quarterly installments or in one annual installment. Property taxes will continue to be collected by the municipal tax collector and the purchaser will receive as a credit against his payment obligation the amount of taxes paid to the tax collector. The purchaser is required to secure his payment obligation to the municipality by an irrevocable letter of credit or surety bond. The purchaser is entitled to receive, all delinquent taxes and other municipal charges owing, due and payable upon collection by the tax collector. The statute sets forth bidding procedures, minimum bidding terms and requires the review and approval of the sale by the Division.

Tax installment payments for the fourth quarter of 2013 were due for payment to the City by November 12, 2013. Certain taxpayers in the City did not, however, submit such tax installment payments then due and owing. Among such taxpayers was the Atlantic Club, one of the twenty-five (25) largest taxpayers in the City. See “Twenty-five Highest Property Assessments in Appendix A – Certain Financial and Demographic Information Concerning the City of Atlantic City, in the County of Atlantic, New Jersey” herein.

As more specifically described above under the subheading “Tax Assessment and Collection of Taxes”, tax installments due and owing and not otherwise paid shall, if not paid by certain dates fixed by statute, become subject to certain interest penalties until paid. In addition, pursuant to the authority provided to the City by N.J.S.A. 54:4-1 et seq., and as more particularly described above under the subheading “-Tax Assessment and Collection of Taxes”, the City is permitted to conduct a tax lien sale in order to sell its interest in the uncollected taxes pursuant to a public sale. In furtherance of such authority, the City, has determined to conduct a tax lien sale for tax installments payments currently due and payable to the City that have not otherwise been paid and will provide notice to the general public in accordance with State law. Such tax lien sale will be scheduled to occur on December 12, 2013.

### **Tax Appeals**

New Jersey Statutes provide a taxpayer with remedial procedures for appealing an assessed valuation that the taxpayer deems excessive. The taxpayer has a right to file a petition on or before the 1<sup>st</sup> day of April of the current tax year for its review or the 1<sup>st</sup> day of May for municipalities that have conducted revaluations. The County Board of Taxation and the Tax Court of New Jersey have the authority after a hearing to increase, decrease or reject the appeal petition. Adjustments by the County Board of Taxation are usually concluded within the current tax year and reductions are shown as cancelled or remitted taxes for the year. If the taxpayer believes the decision of the County Board of Taxation to be incorrect, appeal of the decision may be made to the Tax Court of New Jersey. State Tax court appeals tend to take several years to conclude by settlement or trial and any losses in tax collection from prior years, after an unsuccessful trial or by settlement, are charged directly to operations.

### **LITIGATION**

To the knowledge of Braun D. Littlefield, Esq., Atlantic City, New Jersey (the “City Solicitor”), there is no litigation of any nature now pending or threatened, restraining or enjoining the issuance or the delivery of the Bonds, or the levy or the collection of any taxes to pay the principal of or the interest on the Bonds, or in any manner questioning the authority or the proceedings for the issuance of the Bonds or for the levy or the collection of taxes, or contesting the corporate existence or the boundaries of the City or the title of any of the present officers of the City.



To the knowledge of the City Solicitor, no litigation is presently pending or threatened that, in the opinion of the City Solicitor, would have a material adverse impact on the financial condition of the City if adversely decided, except for the property tax appeal credits, settlements and judgments successfully litigated against the City. A certificate to such effect will be executed by the City Solicitor and delivered to the Underwriters at closing.

## **TAX MATTERS**

The Internal Revenue Code of 1986, as amended (the “Code”), establishes certain requirements which must be met at the time of, and on a continuing basis subsequent to, the issuance of the Bonds in order for the interest on the Bonds to be and remain excluded from gross income for Federal income tax purposes under Section 103 of the Code. Noncompliance with such requirements could cause the interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of issuance of the Bonds. The City will represent in its tax certificate relating to the Bonds that it expects and intends to comply and will comply, to the extent permitted by law, with such requirements.

In the opinion of Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey, Bond Counsel to the City (“Bond Counsel”), under existing statutes, regulations, rulings and court decisions, and assuming continuing compliance by the City with the requirements of the Code described above, interest on the Bonds is not includable in gross income for Federal income tax purposes pursuant to Section 103 of the Code and is not treated as a preference item under Section 57 of the Code for purposes of calculating the Federal alternative minimum tax imposed on corporations. Such interest on the Bonds, however, may be included in the adjusted current earnings of a corporation for purposes of the Federal alternative minimum tax imposed on corporations.

### Additional Federal Income Tax Consequences

Prospective purchasers of the Bonds should be aware that ownership of, accrual or receipt of interest on or disposition of tax-exempt obligations, such as the Bonds, may have additional Federal income tax consequences for certain taxpayers, including, without limitation, taxpayers eligible for the earned income credit, recipients of certain Social Security and Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, financial institutions, property and casualty insurance companies, foreign corporations and certain S corporations. Prospective purchasers of the Bonds should also consult with their tax advisors with respect to the need to furnish certain taxpayer information in order to avoid backup withholding.

### State Taxation

Bond Counsel is further of the opinion that, under existing laws of the State, interest on the Bonds and any gain realized on the sale of the Bonds are not includable in gross income under the New Jersey Gross Income Tax Act, N.J.S.A. 54A:1-1 et seq., as amended.

### Prospective Tax Law Changes

Federal, state or local legislation, administrative pronouncements or court decisions may affect the tax-exempt status of interest on the Bonds, gain from the sale or other disposition of the Bonds, the market value of the Bonds or the marketability of the Bonds. The effect of any legislation, administrative pronouncements or court decisions cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding such matters.

### Other Tax Consequences

Except as described above, Bond Counsel expresses no opinion with respect to any Federal, state, local or foreign tax consequences of ownership of the Bonds. Bond Counsel renders its opinion under existing statutes, regulations, rulings and court decisions as of the date of delivery of the Bonds and assumes no obligation to update its opinion after such date to reflect any future action, fact, circumstance, change in law or interpretation, or otherwise. Bond Counsel expresses no opinion as to the effect, if any, on the tax status of the interest paid or to be paid on the Bonds as a result of any action hereafter taken or not taken in reliance upon an opinion of other counsel.

See Appendix C for the complete text of the proposed form of Bond Counsel's legal opinion with respect to the Bonds.

ALL POTENTIAL PURCHASERS OF THE BONDS SHOULD CONSULT WITH THEIR TAX ADVISORS WITH RESPECT TO THE FEDERAL, STATE AND LOCAL TAX CONSEQUENCES (INCLUDING BUT NOT LIMITED TO THOSE LISTED ABOVE) OF THE OWNERSHIP OF THE BONDS.

### Bank Qualified Bonds

The Bonds will NOT be designated as "qualified tax-exempt obligations" under Section 265 of the Code by the City for an exemption from the denial of deduction for interest paid by financial institutions to purchase or carry tax-exempt obligations.

The Code denies the interest deduction for certain indebtedness incurred by banks, thrift institutions and other financial institutions to purchase or to carry-tax exempt obligations. The denial to such institutions of one hundred percent (100%) of the deduction for interest paid on funds allocable to tax-exempt obligations applies to those tax-exempt obligations acquired by such institutions after August 7, 1986. For certain issues which are eligible to be designated and which are designated by the issuer as qualified under Section 265 of the Code, eighty percent (80%) of such interest may be deducted as a business expense by such institutions.

## **LEGALITY FOR INVESTMENT**

The State and all public officers, municipalities, counties, political subdivisions and public bodies, and agencies thereof, all banks, bankers, trust companies, savings and loan associations, savings banks and institutional, building and loan associations, investment companies, and other persons carrying on banking business, all insurance companies, and all executors, administrators, guardians, trustees, and other fiduciaries may legally invest any sinking funds, moneys or other funds belonging to them or within their control in any bonds of the City, including the Bonds, and such Bonds are authorized security for any and all public deposits.

## **MUNICIPAL BANKRUPTCY**

The undertakings of the City should be considered with reference to Chapter IX of the Bankruptcy Act, 11 U.S.C. Section 401, et seq., as amended by Public Law 94-260, approved April 8, 1976, and as further amended on November 6, 1978 by the Bankruptcy Reform Act of 1978, effective October 1, 1979 (the "Bankruptcy Act"), and other bankruptcy laws affecting creditors' rights and municipalities in general. The Bankruptcy Act permits the State or any political subdivision, public agency, or instrumentality that is insolvent or unable to meet its debts to commence a voluntary bankruptcy case by filing a petition with a bankruptcy court for the purpose of effecting a plan to adjust its debts; directs such a petitioner to file with the court a list of petitioner's creditors; provides that a petition filed under this chapter shall operate as a stay of the commencement or continuation of any

judicial or other proceeding against the petitioner; grants priority to debt owed for services or material actually provided within three (3) months of the filing of the petition; directs a petitioner to file a plan for the adjustment of its debts; and provides that the plan must be accepted in writing by or on behalf of creditors holding at least two-thirds in amount or more than one half in number of the listed creditors. The Bankruptcy Act specifically does not limit or impair the power of a state to control by legislation or otherwise, the procedures that a municipality must follow in order to take advantage of the provisions of the Bankruptcy Act.

Reference should also be made to N.J.S.A. 52:27-40 et seq. which provides that a local unit, including the City, has the power to file a petition in bankruptcy with any United States Court or court in bankruptcy under the provisions of the Federal Bankruptcy Act. For the purpose of affecting a plan of readjustment of its debts or for the composition of its debts; provided, however, the approval of the Municipal Finance Commission must be obtained. The powers of the Municipal Finance Commission have been vested in the Local Finance Board. The City has not authorized the filing of a bankruptcy petition. The City is fiscally sound and has a broad tax base. This reference to the Bankruptcy Act or the State statute should not create any implication that the City expects to utilize the benefits of their provisions, or that if utilized, such action would be approved by the Local Finance Board, or that any proposed plan would include a dilution of the source of payment of and security for the Bonds, or that the Bankruptcy Act Could not be amended after the date hereof.

#### **NO DEFAULT**

There is no report of any default in the payment of the principal of, redemption premium, if any, and interest on any of the bonds, notes or other obligations of the City as of the date of this Official Statement.

#### **APPROVAL OF LEGAL PROCEEDINGS**

All legal matters incident to the authorization, issuance, sale and delivery of the Bonds are subject to the approval of Wilentz, Goldman & Spitzer, P.A., Woodbridge, New Jersey, Bond Counsel to the City, whose approving legal opinion will be delivered with respect to the Bonds in substantially the form set forth in Appendix C. Certain legal matters will be passed on for the City by the City Solicitor, Braun D. Littlefield, Esq., Atlantic City, New Jersey.

#### **RATING**

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("S&P") has assigned a rating of "A-" (stable outlook) to the Bonds, based upon the credit of the City. The ratings reflect only the views of S&P and an explanation of the significance of such ratings may only be obtained from S&P. The City furnished to S&P certain information and materials concerning the Bonds and the City. There can be no assurance that the ratings will be maintained for any given period of time or that they may not be raised, lowered or withdrawn entirely if, in S&P's judgment, circumstances so warrant. Any such downward revision or withdrawal of the ratings may have an adverse effect on the marketability or market price of the Bonds.

#### **FINANCIAL ADVISOR**

Acacia Financial Group, Inc., Marlton, New Jersey served as financial advisor to the City with respect to the issuance of the Bonds. This Official Statement has been prepared on behalf of the City with the assistance of the financial advisor. The information set forth herein has been obtained from the City and other sources, which are deemed reliable, but no warranty, guaranty or other representation as to the accuracy or completeness is made as to such information contained herein. There is no assurance that any of the assumptions or estimates contained herein will be realized.

## **UNDERWRITING**

The Bonds are being purchased from the City by Bank of America Merrill Lynch (the “Underwriter”) at a purchase price of \$66,775,877.76. The Underwriter is obligated to purchase all of the Bonds if any Bonds are purchased.

The Underwriter intends to offer the Bonds to the public initially at the offering yields set forth on the inside cover page of this Official Statement, which may subsequently change without any requirement of prior notice. The Underwriter reserves the right to join with dealers and other underwriters in offering the Bonds to the public. The Underwriter may offer and sell the respective Bonds to certain dealers (including dealers depositing bonds into investment trusts) at a yield higher than the public offering yield set forth on the inside cover page, and such public offering yield may be changed, from time to time, by said Underwriter without prior notice.

## **SECONDARY MARKET DISCLOSURE**

Solely for purposes of complying with Rule 15c2-12 of the Securities and Exchange Commission, as amended and interpreted from time to time (the “Rule”), and provided that the Bonds are not exempt from the following requirements in accordance with paragraph (d) of the Rule, for so long as the Bonds remain outstanding (unless the Bonds have been wholly defeased), the City shall provide for the benefit of the holders of the Bonds and the beneficial owners thereof:

(a) On or prior to 270 days from the end of each fiscal year, beginning December 31, 2013, electronically to the Municipal Securities Rulemaking Board’s Electronic Municipal Market Access (“EMMA”) system or such other repository designated by the SEC to be an authorized repository for filing secondary market disclosure information, if any, annual financial information with respect to the City consisting of the audited financial statements (or unaudited financial statements if audited financial statements are not then available, which audited financial statements will be delivered when and if available) of the City and the City’s most recently adopted budget. The audited financial statements will be prepared in accordance with generally accepted accounting principles as modified by governmental accounting standards as may be required by State law.

(b) if any of the following material events occur regarding the Bonds, a timely notice, not in excess of ten (10) business days after the occurrence of the event, sent to EMMA:

1. Principal and interest payment delinquencies;
2. Non-payment related defaults, if material;
3. Unscheduled draws on debt service reserves reflecting financial difficulties;
4. Unscheduled draws on credit enhancements reflecting financial difficulties;
5. Substitution of credit or liquidity providers, or their failure to perform;
6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;
7. Modifications to rights of security holders, if material;
8. Bond calls, if material, and tender offers;
9. Defeasances;
10. Release, substitution, or sale of property securing repayment of the Bonds, if material;
11. Rating changes;

12. Bankruptcy, insolvency, receivership or similar event of the obligated person;
13. The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purposes of the event identified in subparagraph (12) above, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or Federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over the substantially all of the assets or business of the obligated person.

(c) If all or any part of the Rule ceases to be in effect for any reason, then the information required to be provided hereunder and in the continuing disclosure certificate to be executed by the City simultaneously with the issuance of the Bonds (the "Disclosure Certificate"), insofar as the provision of the Rule no longer in effect required the provision of such information, shall no longer be required to be provided.

(d) The Chief Financial Officer shall determine, in consultation with Bond Counsel, the application of the Rule or the exemption from the Rule for each issue of obligations of the City prior to their offering. Such officer is authorized to enter into additional written contracts or undertakings to implement the Rule and is further authorized to amend such contracts or undertakings or the undertakings set forth herein and in the Disclosure Certificate, provided such amendment is, in the opinion of the nationally recognized bond counsel, in compliance with the Rule.

(e) In the event that the City fails to comply with the Rule requirements or the written contracts or undertakings specified herein and in the Disclosure Certificate, the City shall not be liable for the monetary damages, remedy being hereby specifically limited to specific performance of the Rule requirements or the written contracts or undertakings therefor.

The City previously failed to timely file its annual financial information for the year ended December 31, 2008 as outlined in existing continuing disclosure agreements. However, on February 11, 2010, the City filed such financial information. The City previously failed to timely file its annual financial information for the year ended December 31, 2011 as outlined in existing continuing disclosure agreements. However, on October 24, 2012 the City filed such financial information. As of the date of this Official Statement, the City has made all appropriate filings and is in compliance with the Rule with respect to its prior undertakings. The City is in the process of undertaking the necessary steps to ensure future compliance with the Rule.

## **FINANCIAL STATEMENTS**

The financial statements of the City for the year ended December 31, 2012 are presented in Appendix B to this Official Statement. The financial statements of the City for the year ended December 31, 2012 were audited by Ford-Scott & Associates, independent auditors, as stated in their Independent Auditors' Report appearing in Appendix B.

## **PREPARATION OF OFFICIAL STATEMENT**

The City hereby states that the descriptions and statements herein, including financial statements, are true and correct in all material respects and it will confirm to the purchasers of the Bonds, by certificate signed by the Chief Financial Officer or the Director of Revenue and Finance of the City, that to their knowledge such descriptions and statements, as of the date of this Official Statement and as of the date of delivery of the Bonds, are true and correct in all material respects and do not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein, in light of the circumstances under which they were made, not misleading.

## **ADDITIONAL INFORMATION**

Inquiries regarding this Official Statement, including information additional to that contained herein may be directed to Joanne M. Shepherd, Chief Financial Officer or Michael P. Stinson, CPA, Director of Revenue and Finance at (609) 347-5800 or the Financial Advisor at (856) 234-2266.

## **MISCELLANEOUS**

This Official Statement is not to be construed as a contract or agreement between the City and the purchasers of holders of any of the Bonds. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinions and not as representations of fact. The information and expressions of opinion contained herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of Bonds made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the City since the date hereof. The information contained in the Official Statement is not guaranteed as to accuracy or completeness.

### **CITY OF ATLANTIC CITY IN THE COUNTY OF ATLANTIC, NEW JERSEY**

/s/ Joanne M. Shepherd

Joanne M. Shepherd  
Chief Financial Officer

/s/ Michael P. Stinson

Michael P. Stinson, CPA  
Director of Revenue and Finance

Dated: November 26, 2013

**APPENDIX A**

**GENERAL  
INFORMATION CONCERNING  
THE CITY OF ATLANTIC CITY**

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## **GENERAL INFORMATION CONCERNING THE CITY OF ATLANTIC CITY**

### **General**

The City of Atlantic City (the "City") covers an area of approximately 12 square miles and borders the Atlantic Ocean in the County of Atlantic (the "County"), located in southern New Jersey (the "State"). It lies about 65 miles southeast of Philadelphia and 125 miles south of New York City. The location and climate of the City have traditionally enabled it to maintain itself as a recreational and resort center. In addition, casino gaming (which is discussed in further detail under the heading "LEGALIZED CASINO GAMING") has, for more than 25 years, provided spectacular growth and another attraction to go along with the existing beaches, boardwalk and ocean.

City municipal offices are located in an office building of adequate size in center-city. The building was constructed in 1969 by the Atlantic County Improvement Authority, which leased the building to the City under a lease-purchase agreement until September 9, 1997. On such date, the lease was terminated and the building was deeded to the City.

### **City Organization**

The City was governed by a Commission-type government until June 30, 1982. Prior to that date, a comprehensive study of the City's functions and government prompted the voters to opt for a change to the Mayor-Council form of government with an appointed Business Administrator, which began on July 1, 1982, when the Mayor and nine Council members took office. Three of the Council members are elected at-large for four-year terms. The remaining six members are elected from wards. On November 7, 2000, the voters of the City approved a further change in the City's form of government, from a non-partisan to a partisan form of government. Under the partisan form of government, elections are held in November rather than May and elected terms begin on January 1<sup>st</sup> rather than July 1<sup>st</sup>.

Under the Mayor-Council form of government, the Business Administrator is appointed by the Mayor with the advice and consent of the Council and supervises all City departments as well as assists the Mayor in the preparation of the annual operating and capital budgets.

The City Council adopted an Administrative Code, by ordinance, which established the following departments:

- Administration
- Revenue and Finance
- Planning and Development
- Public Works
- Public Safety
- Health and Human Services
- License and Inspection
- Human Resources

### **Employees**

As of July 1, 2013, the City had a total of 1,267 full-time employees.

## **Population**

The population trends of the City are as follows:

<b><u>Year</u></b>	<b><u>Population</u></b>
1960	66,198
1970	47,859
1980	40,199
1990	37,986
2000	40,517
2010	39,558

Source – Federal Bureau of Census

## **Employment and Unemployment Comparisons**

	<b><u>Total Labor Force</u></b>	<b><u>Employed Labor Force</u></b>	<b><u>Total Unemployment</u></b>	<b><u>Unemployment Rate</u></b>
<b><u>City</u></b>				
2013	17,125	14,088	3,063	17.9%
2012	16,951	13,933	3,018	17.8
2011	16,843	13,935	2,908	17.3
2010	16,920	14,165	2,755	16.3
2009	16,980	14,489	2,491	14.7
2008	16,669	15,144	1,555	9.3
<b><u>County</u></b>				
2013	136,675	118,963	17,725	13.0%
2012	136,100	117,700	18,400	13.5
2011	135,200	117,800	17,500	12.9
2010	137,168	119,715	17,453	12.7
2009	136,912	120,774	16,138	11.8
2008	135,930	126,424	9,506	7.0
<b><u>State</u></b>				
2013	4,618,863	4,206,275	412,600	9.0%
2012	4,595,500	4,159,300	436,200	9.5
2011	4,545,200	4,120,000	425,200	9.4
2010	4,548,500	4,111,200	437,300	9.6
2009	4,543,900	4,135,900	408,000	9.0
2008	4,508,600	4,261,800	246,700	5.5

Source: New Jersey Department of Labor, Office of Research and Planning, Division of Labor Market and Demographic Research, Bureau of Labor Force Statistics, Local Area Unemployment Statistics. The 2013 figures are as of August 2013.

## **Pension Information**

Those municipal employees who are eligible for pension coverage are enrolled in the State of New Jersey Pension System. Three pension systems have been established by act of the State Legislature. Benefits, contributions, means of funding, and the manner of administration are determined by State legislation.

The three (3) administered pension funds are: the Consolidated Police and Firemen's Pension Fund (N.J.S.A. 43:16A), the Police and Firemen's Retirement System (N.J.S.A. 43:16A), and the Public Employees' Retirement System (N.J.S.A. 43:15A). The Division of Pensions (the "Division") within the Treasury Department of the State of New Jersey is the administrator of the funds. This Division annually charges municipalities and other governmental units for their respective contributions. The City is current in its pension liabilities to these funds except for those for which the City elected to defer 50% of payments due for 2009 to 2012, as indicated in the table below.

Lifeguards are required to enroll in a separate pension established under J.J.S.A. 43:13-23. The lifeguards contribute 4% of their salary to their pension and the City is required to budget the projected annual participants' distribution. The plan is administered by a commission appointed by the Mayor.

The following table sets forth the City's annual pension payments and contributions to the Social Security System for the past five (5) fiscal years. In 2012, the City refunded its early retirement incentive obligation through the issue of Pension Refunding Bonds.

	<b>ANNUAL PAYMENT/CONTRIBUTIONS <sup>(1) (2)</sup></b>				
	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Public Employees' Retirement System	\$3,986,983	\$3,708,679	\$2,863,797	\$1,309,958	\$1,839,167
Social Security	3,361,695	3,299,073	3,491,285	3,510,278	3,157,138
Consolidated Police & Firemen's Pension Fund	342	466	669	998	937
Police & Firemen's Retirement System	14,818,152	16,213,750	12,234,755	5,780,837	10,821,796
Pension Increase Account Consolidated Police & Fire	104,670	121,742	113,606	123,310	197,758
Beach Patrol	797,233	785,289	744,059	708,438	714,195
Defined Contribution Retirement	32,838	20,871	13,893	10,166	8,954
PERS – Early Retirement	<u>790,431</u>	<u>790,431</u>	<u>790,431</u>	<u>790,431</u>	<u>790,431</u>
	<u>\$23,893,344</u>	<u>\$24,940,301</u>	<u>\$20,252,495</u>	<u>\$12,234,416</u>	<u>\$17,769,155</u>

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<sup>1</sup>The City elected to defer 50% of the PERS and PFRS payments due for 2009 to 2012.

<sup>2</sup> As of December of each year, unless otherwise indicated.

## **Labor Contracts**

Under the laws of the State of New Jersey (the "State" or "New Jersey"), municipal employees have certain organizational and representational rights, which include the right to organize, to negotiate collectively through representatives of their choosing and to engage in lawful concerted activities for negotiating. State law prohibits strikes by public employees and there have been no strikes by municipal employees in the City since employees were granted the right to negotiate collectively.

As of June 30, 2013, the City's employees are organized into eight (8) collective bargaining units, as described below:

<b><u>Bargaining Unit</u></b>	<b><u>Job Category</u></b>	<b><u>Membership</u></b>	<b><u>Expiration Date</u></b>	<b><u>Number of Members</u></b>
PBA	Uniform Police	Police	12/31/2015*	308
Superior Officer's Assoc.	Captains	Police	12/31/2015*	9
IAFF	Uniform Firefighters	Firefighters	12/31/2014**	264
AFL-CIO #2303	Blue Collar	Pub Works & Maint.	12/31/2014	184
AFL-CIO-2303C	Beach Patrol	Lifeguards	12/31/2012	160
GWU#910	Supervisors	Supervisors	12/31/2014	81
ACWCPA	White Collar	All Others	12/31/2014	323
IBEW #351	Const. Inspectors	Const. Inspectors	12/31/2014	15
Total:				1,344

\* Tentative arbitration award for 2013 to 2015.

\*\* Tentative arbitration award for 2012 to 2014.

## **School District**

The Atlantic City School District (the "School District") is coterminous with the boundaries of the City. The Board of Education of the City of Atlantic City (the "Board") is comprised of ten (10) members with nine (9) of the members being citizens of the City serving three-year staggered terms and one (1) who is appointed from the sending districts of Brigantine, Margate and Ventnor and participates on issues affecting the high school. The Superintendent appointed by and responsible to the Board, is the executive in charge of the instruction program and personnel. The School Business Administrator/Board Secretary also appointed by and responsible to the Board, is the chief fiscal officer and is additionally responsible for operation of the physical plant.

The School District is a Type II school district and provides a full range of educational services appropriate to pre-kindergarten through grade twelve (12), including regular and special education programs. The School District has send-receive agreements with the Brigantine City School District, Ventnor City School District, Margate City School District, and Longport Borough School District, allowing each of these school districts to send their ninth through twelfth grade students to the Atlantic City High School on a tuition basis. These agreements can only be severed by the New Jersey Commissioner of Education.

## **School District Staff**

The Superintendent of Schools is the Chief Administrative Officer of the School District. The School Business Administrator/Board Secretary oversees the business functions and reports through the Superintendent to the Board. As of June 30, 2013, the Board employed approximately 1,198 employees, of which 823 are teachers, 298 are education support and 77 are administrators.

### **School District Enrollment**

The School District consists of eight (8) elementary schools accommodating grades K-8, and two (2) schools accommodating only pre-kindergarten students. Atlantic City High School is the City's only high school and students also attend the Atlantic County Vocational-Technical School. The City's total school enrollment is presented in the following table.

<b><u>Fiscal Year</u></b>	<b><u>Total School District Enrollment</u></b>
2012-2013	7,290
2011-2012	7,041
2010-2011	7,067
2009-2010	7,106
2008-2009	6,995
2007-2008	7,060
2006-2007	7,368

### **School District Labor Relations**

The Board currently has a contract with the Atlantic City Administrators Association which represents 48 district administrators. The School district's teachers are represented by the Atlantic City Education Association. Both contracts expired June 30, 2013.

### **Utilities**

Electricity is provided by the Atlantic City Electric Company and gas by South Jersey Gas Co., a subsidiary of South Jersey Industries, Inc.

Sewerage facilities are provided by the Atlantic City Sewerage Company, a privately-held concern which, in turn, is a participant in the Atlantic County Utilities Authority (as hereinafter defined), a public body created by resolution of the Atlantic County Board of Chosen Freeholders for the purpose of relieving waters in the Atlantic County Coastal Region from pollution or threatened pollution and for the improvement of conditions affecting public health. The Atlantic County Utilities Authority completed the construction of a wastewater treatment system for the Atlantic County Coastal Region and began operations on October 19, 1978. The Atlantic City Sewerage Company pays to the Atlantic County Utilities Authority annual service charges based on its percentage participation in the system.

The Atlantic City Municipal Utilities Authority ("ACMUA"), established by the City government, acquired the City Water Utility in 1980 and has assumed its operation. The ACMUA is solely responsible for operating, maintaining, managing, and improving the water system in the City. The ACMUA has the ability to deliver 21,000,000 treated gallons of water per day (gpd). The peak single day requirement in 2012 was 17,859,000 gpd and in 2011, 18,184,000 gpd.

### **Transportation**

The City is accessible by land via the Garden State Parkway, a major north-south artery which is adjacent to the City and provides access to New York City, and the Atlantic City Expressway, which leads directly to Philadelphia. The Garden State Parkway going south connects with the Cape May-Lewes ferry service, which provides a convenient, modern method of crossing the Delaware Bay to points south. The South Jersey Transportation Authority constructed a \$330 million tunnel and roadway that links the Atlantic City Expressway with the Marina District.

Atlantic City International Airport (approximately fifteen miles distant) provides both commuter and regular air travel to major eastern cities and beyond.

## **City Capital Improvement Program**

The Capital Improvement Program for the next six years will average \$5,000,000 per year which will be financed through a combination of short and long-term debt, the City's capital improvement fund, and grants. This program does not include any special one-time improvements but is designed to provide adequate funds for normal capital expenditures.

## **State Tourism District**

In July of 2010, Governor Christie announced plans for the improvement of the City's entertainment and gaming districts. Under the plan and based upon a February 2010 State commission review, the State would oversee the creation of a tourism district in the City. The Governor's plan will also increase marketing efforts of the City's entertainment, meeting and convention businesses as well as improve transportation options to the City. A master plan for the tourism district, which includes gaming and non-gaming attractions, was finalized on February 1, 2012. Under a resolution adopted by the Casino Reinvestment Development Authority ("CRDA") in April of 2011, CRDA was designated to oversee the district which includes the Boardwalk, The Walk outlet stores, and the City's Marina District. CRDA will also be authorized, among other things, to facilitate development by assuming planning, zoning and other land use functions.

## **Local Government Supervision Act**

The Director (the "Director") of the Local Finance Board initiated an action in New Jersey Superior Court, Law Division – Atlantic County, with the consent and support of the City, seeking a judicial determination, pursuant to N.J.S.A. 52:27BB-55(6). The Director sought the approval of the court to require the City to be supervised by the Local Finance Board and the Director, pursuant to the provisions of Article IV of the "Local Government Supervision Act (1947)," N.J.S.A. 52:27BB-1 et seq. (the "Local Government Supervision Act"). The basic allegation made by the Director was that the City was unable to fund an operating deficit in its 2010 budget, thus jeopardizing the City's fiscal integrity.

On October 12, 2010, the court agreed with the Director's allegations about the City's finances and ordered that certain provisions of Article IV of the Local Government Supervision Act take effect. Specifically, the Director was authorized to seek a resolution from the Local Finance Board to place the City under the supervision of the Local Finance Board and the Director, pursuant to requirements of N.J.S.A. 52:27BB-56.

Accordingly, the Local Finance Board, on October 13, 2010, adopted a resolution as to the application to the City of Article 4 of the Local Government Supervision Act. Pursuant to the Local government Supervision Act, the Commissioner of the New Jersey Department of Community Affairs, the State Treasurer and the Attorney General approved the resolution. Pursuant to such resolution, the Local Finance Board determined that various provisions of the Local Government Supervision Act shall be placed in effect in the City, including N.J.S.A. 52:27BB-55(6) (Compliance with requirements of law), N.J.S.A. 52:27BB-87 (Preparation of budgets), N.J.S.A. 52:27BB-55(6) (General duties of board), and N.J.S.A. 52:27BB-90 (Delegation of powers to director). To remain effective, the resolution must be renewed each year by the Local Finance Board and approved by two of the cabinet officers. On September 14, 2011, the Local Finance Board adopted, and the Commissioner of the New Jersey Department of Community Affairs and the Attorney General approved, a resolution to continue application of Article 4 of the Local Government Supervision Act through December 31, 2012.

In accordance with the resolution adopted on October 13, 2010, the Local Finance Board prepared a "Memorandum of Understanding" (the "Original MOU"), outlining the specific areas over which the Director will have direct supervision relating to the operations and finances of the City. On December 8, 2010, the City adopted a resolution acknowledging the contents of the Original MOU.

Certain provisions of the Original MOU have since been removed or made less restrictive under the most recently approved "Memorandum of Understanding" (the "Revised MOU"). Some of the major provisions of the Revised MOU are as follows:

1. Certain requests for new employment positions must first be approved by the Director;
2. The imposition of salary restraints on all elected officials and non-contractual employees;
3. The hiring for the provision of legal services must first be approved by the Director;
4. Contracts and services pertaining to tax appeals, revaluation, or reassessments must be approved by the Director;
5. The City is not permitted to create any new services or expand existing services without seeking approval of the Director;
6. The City is not permitted to expend funds on any out-of-state travel or overnight stays in New Jersey without first obtaining the approval of the Director;
7. The City's Pay-to-Play Ordinance may not be modified without the approval of the Director;
8. The City is required to clearly communicate fiscal stress to unions and arbitrators and provide copies of such communications to the Director; and
9. The City is required to meet quarterly, or more often as requested by the Division, with the Director and staff to discuss budget and fiscal progress.

The provisions of the Revised MOU are subject to annual renewal by the City and the Local Finance Board. The Original MOU was renewed by both the State and the City for the year ending December 31, 2011. The Revised MOU was adopted by both the State and City for the year ending December 31, 2012 and remained in effect until December 31, 2012.

As a condition of the September 12, 2012 resolution issued by the Local Finance Board, the Local Finance Board required the City to remain under its supervision for calendar year 2013 substantially under the same terms and conditions that the City operates under the Revised MOU. The Local Finance Board on September 11, 2013 passed a resolution extending the supervision of the City. The City does not make any representations, statements or predictions regarding the continued supervision of the City's operations and finances by the Local Finance Board after December 31, 2013.

## **LEGALIZED CASINO GAMING**

### **Background**

On November 2, 1976 in a State constitutional referendum, the electorate approved legalized casino gambling exclusively in the City. The enabling legislation, the Casino Control Act, P.L. 1977, Ch.110, was signed on June 2, 1977. It created a State regulatory agency known as the Casino Control Commission and outlined procedures, eligibility, restrictions and limitations on gambling; defined types of hotels eligible for licenses; specified the annual license fees to be used to pay all commission and related administrative costs; and established a State tax on casino gambling to be utilized to reduce utility costs for senior citizens and the disabled in the State.

The creation of the City's casino gaming industry has profoundly affected the social and economic fabric of the entire region of the country and even has had implications for the financial climate of the State. To date, the industry has invested in excess of \$10.0 billion in casino hotel construction with further investments planned. This figure does not reflect capital investment from sources outside the casino industry, including the public sector.

### **Casino Development**

Casino licenses are issued to approved hotels which meet a variety of requirements, the most significant of which is a minimum of 500 rooms containing at least 325 square feet each for the accommodation of overnight guests. The following is a list of casino hotels whose construction is completed and which are currently in operation.

	<b><u>Date Opened</u></b>	<b><u>Guest Rooms</u></b>
Resorts Casino Hotel	May 1978	942
Caesars Atlantic City Hotel Casino	June 1979	1,141
Bally's Park Place Casino Hotel & Tower	December 1979	1,749
Harrah's Marina Hotel Casino	November 1980	2,590
Atlantic Club Hotel Casino	December 1980	809
Tropicana Casino & Entertainment Resort	November 1981	2,079
Trump Plaza Casino Hotel	May 1984	906
Golden Nugget Hotel & Casino	June 1985	727
Showboat	March 1987	1,329
Trump Taj Mahal Casino Resort	April 1990	2,010
Borgata	July 2003	2,767
Revel Hotel-Casino	April 2012	1,399
Total:		<u>18,448</u>

Source: Casino Control Commission December 31, 2012

### **Current Developments**

The new Revel Hotel-Casino, which includes a 47-story tower with 1,399 hotel rooms and 150,000 square feet of gaming space, opened on April 2, 2012.

Hard Rock International received approval from the Casino Control Commission for the construction of a new casino-hotel and rock n' roll museum on the Boardwalk. Construction was expected to begin in 2013 but the project has recently been canceled.

### **Casino Employment**

<b><u>Year</u></b>	<b><u>Total Employees</u></b>
2012	34,726
2011	32,823
2010	34,145
2009	36,082
2008	38,585
2007	40,788
2006	42,456
2005	44,542
2004	45,501
2003	46,159
2002	44,820

Source: State of New Jersey Casino Control Commission



## **State Gaming Tax**

The State receives as revenue a tax on gross receipts of the City's gaming operations, which is used primarily to reduce utility costs for senior citizens and the disabled in the State. These taxes have been fixed at 8.0% gross casino revenues and are presented in the following table:

<b>Year</b>	<b>Total Gross Casino Revenues</b>	<b>Taxes Paid to the State of New Jersey<sup>(3) *</sup></b>
2012	\$2,709,066,000	\$216,726,000
2011	2,950,580,000	236,046,000
2010	3,261,027,000	260,883,000
2009	3,691,358,000	295,309,000
2008	4,502,854,000	360,228,000
2007	4,921,337,000	393,707,000
2006	5,219,199,000	417,536,000
2005	5,018,272,000	401,462,000
2004	4,807,342,000	384,578,000
2003	4,480,892,000	358,473,000
2002	4,359,309,000	348,743,000

Source: State of New Jersey Casino Control Commission

\* All figures rounded to nearest thousands

## **Casino Investment Alternative Tax**

Each licensed casino hotel is required to either pay 2.5% of its gross revenues as a tax or to invest 1.25% of its annual gross revenues in CRDA projects. CRDA was created pursuant to Chapter 218 of P.L. 1984, effective December 19, 1984 (the "Act"). The statute provides that investments may take the form of: 1) taxable or tax-free bonds issued to the casino licensees at a discounted rate; 2) direct investment in projects approved by CRDA; or 3) CRDA approved donations. It has been estimated by CRDA that casino reinvestment obligations will generate up to nearly \$2 billion over a 50-year period, with approximately \$660 million for City projects.

CRDA was established in 1984 pursuant to the Act as a public body corporate and politic, constituting an instrumentality of the State. CRDA is governed by a board of seventeen (17) members. Six (6) members are appointed by the Governor with the advice and consent of the State Senate. Two (2) members appointed by the Governor are casino industry representatives. Two (2) members are appointed by the Governor upon recommendation of the Speaker of the General Assembly. One (1) member is also a member of the Casino Control Commission appointed by the Governor. One (1) member shall be either Commissioner of the Department of Commerce and Economic Development or the Commissioner of the Department of Community Affairs or an additional member of the Casino Control Commission, as appointed by the Governor. The Mayor of the City, the State Treasurer and the State Attorney General are also members of the Board. The following chart shows the statutory distribution of reinvestment tax moneys throughout the State over the 50-year period during which a given licensee has a reinvestment obligation.

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<sup>3</sup> Revenue derived from 8% State tax on gross gaming revenue, which goes directly to the New Jersey Treasury. The fund supports programs for senior citizens and handicapped persons in the form of property tax and utility bill relief.

<u>Years</u>	<u>Atlantic City</u>	<u>North Jersey</u>	<u>South Jersey</u>
1-3	100%	0%	0%
4-5	90%	2%	8%
6-10	80%	8%	12%
11-15	50%	22%	28%
16-20	30%	27%	43%
21-25	20%	35%	45%
26-30	65%	35%	0%
31-35	25%	50%	25%
36-50	0%	50%	50%

During the first three years of CRDA's operation, all obligation moneys were allocated to the City for housing projects. Thereafter, 50% of the City obligations may go to non-housing projects.

### **Parking Fee Revenue**

Pursuant to the Parking Fee Statute, P.L. 1993 c159, as amended, on July 1, 2003, the State increased the minimum casino hotel parking charge from \$2.00 to \$3.00, and directed \$1.50 of the fee to be deposited in the Casino Revenue Fund in State fiscal years 2004 through 2006. Beginning in State fiscal year 2007 and thereafter, the State directed \$0.50 of the fee to be deposited into the Casino Revenue Fund, and \$1.00 to be transferred to CRDA for its purposes pursuant to law, and for use by CRDA to bond for \$30 million for deposit into the Casino Capital Construction Fund. The historic Parking Fee collections are as follows:

<u>Year</u>	<u>Total Annual Revenue</u>	<u>Percentage Change From Prior Year</u>
2012	\$28,781,526	1.2%
2011	28,427,000	(4.89)
2010	29,888,874	(5.05)
2009	31,477,113	(8.49)
2008	34,398,033	(4.08)
2007	35,860,098	(3.31)
2006	37,087,204	5.68
2005	35,092,845	(3.15)
2004	36,233,088	75.01
2003	20,703,015	30.22
2002	15,898,009	n/a

\*Rounded

Source – State of New Jersey Casino Control Commission

## **Other Taxes and Fees**

<b>Year</b>	<b>Luxury Tax <sup>(4)</sup></b>	<b>Promo Tax <sup>(5)</sup></b>	<b>Tax on Complimentaries <sup>(6)</sup></b>	<b>Hotel Room Fee <sup>(7)</sup></b>	<b>Adjusted Net Income Tax <sup>(8)</sup></b>	<b>Tax on Progressive Slots <sup>(9)</sup></b>
2012	\$35,485,650	\$10,794,002	n/a	n/a	n/a	n/a
2011	31,515,011	10,572,608	n/a	\$6,938,037b	n/a	\$1,890,233a
2010	28,478,537	9,939,606	n/a	15,381,693	n/a	3,325,855
2009	26,374,435	10,697,314	3,023,567	15,445,731	n/a	3,487,117
2008	27,608,318	10,460,486	9,429,155	15,170,718	n/a	4,145,291
2007	27,979,920	10,257,478	15,415,314	14,540,982	n/a	4,346,368
2006	27,281,597	10,368,106	22,395,987	14,968,908	9,736,768	5,414,570
2005	26,247,227	10,556,223	27,144,933	14,855,577	21,756,363	6,120,959
2004	21,322,350	9,899,941	26,333,650	14,228,871	25,363,068	5,836,420
2003	18,188,693	9,352,656	13,257,394	7,036,316	10,878,002	3,028,095
2002	18,882,857	8,576,594	n/a	n/a	n/a	n/a

Source – State of New Jersey Casino Control Commission

a: 8 months: b: 6 months

## **Non-Casino Development**

### **CRDA Projects:**

CRDA has constructed a mixed-use parking structure consisting of 1,200 parking spaces and five floors on property owned by CRDA at the corner of Fairmont and Mississippi Avenue in the City. The project houses structured parking and 16,000 square feet of ground floor retail space. The structured parking component will serve the needs of area merchants and businesses primarily located in the Ducktown neighborhood and the Walk retail project. Atlantic City Convention Center and Boardwalk visitors also have access to the garage.

Adjacent to the mixed use parking structure is "The Walk III", which fronts Columbus Boulevard. The development consists of retail, dining and entertainment venues.

CRDA is spearheading the implementation of the South Inlet Transportation Improvement Plan. Benefits of the plan already in progress include expansion of Connecticut Avenue, improvements to arterial roadway access and updated utility services. The completion of the expansion, improvements and updates are expected to draw additional investment for economic development and housing projects in the South Inlet.

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<sup>4</sup> Luxury Tax rates are 3% on sales of alcoholic beverages and 9% on other taxable items (i.e., beach chairs (not complimentary)).

<sup>5</sup> Promotional "Promo" Tax is a \$2 fee per day for each occupied room in casino hotels and \$1 per day for each occupied room in other lodging places.

<sup>6</sup> Tax on Casino Complimentaries became effective on July 1, 2003. Tax raises a fixed \$26 million for State fiscal years 2004 through 2006, \$19.5 million for 2007, \$13 million for 2008 and \$6.5 million for 2009. The tax is no longer assessed.

<sup>7</sup> Hotel Room Fee became effective on July 1, 2003. Fee is \$3 per day for each occupied room in casino hotels.

<sup>8</sup> Adjusted Net Income tax became effective on July 1, 2003. Tax is based on net income plus management fees for calendar year 2002 (7/03 – 6/04 for Borgata). The tax is no longer assessed.

<sup>9</sup> Tax on Multi-Casino Progressive Slot Machine Revenue became effective on July 1, 2003. Tax is paid by slot machine system operators (not casinos) based on 8% of revenues from operating progressive slot machine systems in the City.

CRDA is funding a Boardwalk Revitalization Project which has four phases and includes building facade improvements and numerous renovations.

**Other:**

There is a planned housing development on the former Garwood Mills Site. The project is expected to include 300 low-rise housing units.

The sale and development of Bader Field, which is owned by the City, is currently zoned for casino development. The City is working to determine the highest and best use of the property.

**Special Improvement District:**

In 1992, the City approved by ordinance the creation of a Special Improvement District ("SID"), a program in which proceeds from a special tax on businesses within a specific geographic area are directed toward targeted improvement projects within that area. Employing a community-based approach, the SID is designated to improve the City's Central Business District by encouraging self-help and self-financing programs and enhancing the commercial viability and attractiveness of the area. The success of the program has resulted in multiple expansions of the district. The SID was dissolved in 2011 and made part of the newly established Tourism District.

**Commercial:**

The Convention Center consists of approximately 500,000 square feet of contiguous exhibit space, approximately 109,000 square feet of meeting space, and approximately 648,000 square feet of garage space. The convention facility ties in with the rail terminal and with a 500-room hotel. The Convention Center is equipped to accommodate 92% of the world's largest trade shows.

The facility generally hosts many large convention and trade shows throughout the year. Among the largest are the New Jersey Education Association Annual Exhibition which brings approximately 45,000 attendees to the City, the New Jersey State League of Municipalities which has approximately 20,000 attendees, the Atlantic City Boat Show with approximately 36,000 attendees and the Atlantic City Classic Car Show which generally attracts approximately 30,000 attendees.

The original Convention Hall, located on the boardwalk in mid-city, will continue to be used as a special events and sports facility. A \$90 million renovation of the facility was completed in 2001 with funding from CRDA. The renovated hall includes an ice rink for minor league hockey with a seating capacity of 13,000 and provides a venue for such events as concerts and professional boxing events. The Boardwalk Hall, as it is now known, was declared by Billboard Magazine in 2009 as the highest grossing mid-size venue of the decade.

Historic Gardner's Basin is the site of Ocean Life Center, the Jersey Shore's premier marine education attraction. The \$4 million, 14,000 square foot project opened in 1999. This unique attraction combines wet exhibits, touch tanks, giant aquariums filled with species indigenous to coastal New Jersey, interactive computers and dynamic field study programs, to give visitors young and old new opportunities to explore the marine environment.

## City Valuation

<u>Year Ended December 31</u>	<u>Net Assessed Valuations</u>	<u>Estimated Full Cash Valuation</u>	<u>Percentage of Net Assessed to Estimated Full Cash Valuation</u>
2013	\$14,402,873,676	\$12,036,545,226	119.66%
2012	18,078,249,000	15,016,404,186	120.39
2011	19,457,830,928	15,448,890,426	125.95
2010	20,480,854,452	20,143,170,351	101.68
2009	20,320,995,673	20,058,026,604	96.50
2008	20,503,172,174**	22,363,843,994	91.68

\*\*Revaluation

Source: Audited Financial Statements of the City

## Tax Rates

<u>Year</u>	<u>Net Assessed Valuation</u>	<u>School District</u>	<u>City</u>	<u>Atlantic County</u>	<u>Total</u>
2013	\$14,402,873,676	\$.929	\$1.384	\$0.227	\$2.164
2012	18,078,249,000	0.742	1.130	0.292	2.165
2011	19,457,830,928	0.670	1.016	0.241	1.927
2010	20,480,854,452	0.584	0.928	0.258	1.770
2009	20,320,995,673	0.547	0.925	0.241	1.713
2008	20,503,172,174**	0.524	0.882	0.260	1.666

\*\*Revaluation

Source: Audited Financial Statements of the City

## Tax Levies and Collections

<u>Year Ended December 31</u>	<u>Total Tax Levy</u>	<u>Current Tax Collections</u>	<u>% of Tax Levy Collected</u>
2012	\$363,741,586 <sup>(10)</sup>	\$358,976,575	98.69%
2011	373,123,879 <sup>(11)</sup>	368,505,597	98.76
2010	361,447,771 <sup>(12)</sup>	358,890,658	99.29
2009	334,622,560 <sup>(13)</sup>	334,037,385	99.83
2008	325,745,620 <sup>(14)</sup>	324,061,583	99.48
2007	302,877,153 <sup>(15)</sup>	302,577,800	99.90
2006	300,595,635	298,250,259	99.22

Source: Audited Financial Statements of the City

<sup>10</sup> Reduced by \$27,796,636 in tax appeals

<sup>11</sup> Reduced by \$4,040,227 in tax appeals

<sup>12</sup> Reduced by \$5,300,737 in tax appeals

<sup>13</sup> Reduced by \$5,590,278 in tax appeals

<sup>14</sup> Reduced by \$6,502,404 in tax appeals

<sup>15</sup> Reduced by \$7,472,340 in tax appeals

**Tax Title Liens**

<b><u>Year</u></b>	<b><u>Balance January 1</u></b>	<b><u>Increased</u></b>	<b><u>Collected</u></b>	<b><u>Foreclosed or Other</u></b>	<b><u>Balance December 31</u></b>
2012	\$7,780,196	\$4,593,929	\$7,260,841	\$1,096,437	\$4,016,847
2011	4,051,806	4,793,179	352,126	712,663	7,780,196
2010	2,526,601	2,095,724	431,944	-	4,190,381
2009	2,324,837	539,117	113,390	223,963	2,526,601
2008	3,198,833	321,554	137,585	57,965	2,324,837
2007	2,367,567	153,965	291,822	30,877	2,198,833
2006	2,517,517	320,757	470,707	-	2,367,567

Source: Audited Financial Statements of the City

**Foreclosed Property**

<b><u>Year</u></b>	<b><u>Balance January 1</u></b>	<b><u>Increased</u></b>	<b><u>Sold or Cancelled</u></b>	<b><u>Balance December 31</u></b>
2012	\$23,652,400	\$4,265,600	\$895,800	\$27,022,200
2011	21,622,800	2,782,200	752,600	23,652,400
2010	21,999,500	485,300	862,000	21,622,800
2009	21,729,500	555,900	285,900	21,999,500
2009	22,098,500	-	369,000	21,729,500
2007	22,098,500	-	-	22,098,500
2006	22,030,500	428,000	360,000	22,098,500

Source: Audited Financial Statements of the City

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## **Twenty-five Highest Property Assessments**

<b><u>Name of Taxpayer</u></b>	<b><u>Property Assessed</u></b>	<b><u>2013 Assessed Valuation</u></b>
1. Marina District Development Corp.**	Borgata Casino/Hotel	\$2,260,470,200*
2. Marina Associates	Harrah's Casino/Hotel	1,469,980,700*
3. Revel Atlantic City LLC	Revel Casino/Hotel	1,150,000,000
4. Boardwalk Regency	Caesars Casino/Hotel	1,048,906,600*
5. Trump Taj Mahal Assoc	Trump Taj Mahal Casino/Hotel	1,000,000,000
6. Bally Park Place, Inc.	Ballys Park Place Casino/Hotel	700,000,000*
7. Adamar of New Jersey	Trop World Casino/Hotel	700,000,000
8. Mirage A C Corp.	Land Holdings	677,858,100
9. Showboat Land, LLC	Showboat Casino/Hotel	625,000,000*
10. Trump Plaza Corp	Trump Plaza Casino/Hotel	250,000,000
11. Ocean Club Condominiums	Condominiums	223,403,300
12. Golden Nugget Atlantic City	Golden Nugget Casino/Hotel	175,000,000
13. RIH	Atlantic Club	165,000,000
14. Resorts International Inc.	Resorts Casino/Hotel	165,000,000
15. Boardwalk Regency Corp.	The Pier @ Caesars	115,000,000
16. Flagship Resorts	Time Share Condominiums	114,584,200
17. Berkley Condominium Assoc.	Condominiums	87,095,900
18. Fairfield Resorts	Time Share Condominiums	71,449,200
19. Pinnacle Entertainment	Former Sands Casino/Hotel Site	70,000,000
20. Atlantic Palace Condominium Assoc.	Condominiums/Timeshare	69,035,000
21. Bella Development Group, LLC	Condominiums	59,929,100
22. Enclave Condominium Assoc.	Condominiums	55,635,200
23. CRDA	Sheraton Hotel	31,000,000
24. Boardwalk Florida Enterprises	Former Trump World's Fair Site	30,717,200
25. AC Beach Development	Chelsea Hotel	26,482,400

\*Outstanding Tax Appeal

\*\* The City cannot and does not predict the outcome of any of such appeals, the financial impact of any of such appeals on the City or when such appeals may be resolved in their entirety. The City presently considers the Marina District Development Corp. (Borgata Casino Hotel) tax appeal judgment to potentially have an adverse, though manageable, impact on the City's tax base. In October 2013, the New Jersey Tax Court ruled that the Marina District Development Corp. property assessment should be reduced to \$880,000,000 for the year 2009 and \$870,000,000 for 2010 from the current valuation of \$2,260,470,200. As of November 1, 2013 it is the City's intention to appeal this decision. For a more complete discussion relative to tax assessments, collections, and appeals, generally, see discussion under heading "TAX ASSESSMENT AND COLLECTION".

Source: City Tax Assessor

**STATEMENT OF BONDED INDEBTEDNESS <sup>(16)</sup>**  
**December 31, 2012**

Issued and Outstanding:

Serial Bonds:	\$85,604,000
Tax Appeal Bonds:	125,320,000
Bond Anticipation Notes:	0
Miscellaneous Bonds, Notes & Loans Issued:	21,080,329
School bonds <sup>(17)</sup> :	107,191,000
Authorized But Not Issued:	9,500,000
Total Issued and Outstanding:	\$348,695,329

Less Applicable Deductions:

Reserve to Pay Municipal Debt:	819,493
Bonds Authorized by Another Public Body and Guaranteed:	21,080,329
School Bonds <sup>(17)</sup> :	<u>107,191,000</u>
Total Deductions	\$129,090,822

**Net Bonded Indebtedness:** **\$219,604,507**

**Borrowing Capacity**

Statutory Borrowing Power under Local

3.5% of Average (2010-2012) Equalized Valuation of Real Property and Second Class Railroad (\$16,309,079,388):	<u>\$570,817,778</u>
Net Debt:	219,604,507
Remaining Borrowing Power Available under N.J.S.A. 40A:2-6:	\$351,213,271
Net Debt Percentage:	1.347%

---

<sup>16</sup> Source: Annual Debt Statement and City Auditor.

<sup>17</sup> As of December 31, 2012



**Overlapping Debt Information (as of December 31, 2012)**

<b><u>Name of Overlapping Entity</u></b>	<b><u>Amount of Overlapping Net Debt</u></b>	<b><u>Percentage Chargeable To City<sup>(18)</sup></u></b>	<b><u>Amount Chargeable To City</u></b>
County of Atlantic City of Atlantic City Board of Education <sup>(19)</sup>	\$139,967,635 \$107,191,000	34.05% 100.000%	\$47,658,979 \$107,191,000
Total Overlapping Debt			\$154,849,979
Total Direct General Debt			<u>\$219,604,507</u>
Total Direct & Overlapping Debt			\$374,454,486
City Equalized Value of Real Property			\$16,583,244,649
County Equalized Value of Real Property			\$48,698,622,069
City Percentage Share			34.05%

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<sup>18</sup> Based on 2012 Equalization Table Issued by the Atlantic County Board of Taxation

<sup>19</sup> As of December 31, 2012

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**APPENDIX B**

**FINANCIAL STATEMENTS OF  
THE CITY OF ATLANTIC CITY**

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# **CITY OF ATLANTIC CITY**

## **ATLANTIC COUNTY**

### **NEW JERSEY**

#### **AUDIT REPORT**

**FOR THE YEAR ENDED  
DECEMBER 31, 2012**

**CITY OF ATLANTIC CITY**

**PART 1**

**REPORT ON AUDIT OF FINANCIAL STATEMENTS**

**AND SUPPLEMENTARY DATA**

**YEAR ENDED DECEMBER 31, 2012**

## Independent Auditor's Report

The Honorable Mayor and  
Members of City Council  
City of Atlantic City, New Jersey

### **Report on the Financial Statements**

We have audited the accompanying balance sheets - regulatory basis of the various funds and account group of the City of Atlantic City, as of December 31, 2012 and 2011, the related statement of operations and changes in fund balance - regulatory basis for the years then ended, and the related statement of revenues - regulatory basis and statement of expenditures - regulatory basis of the various funds for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the basis of accounting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the audit requirements prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey (the "Division"), and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

***Basis for Adverse Opinion on U.S Generally Accepted Accounting Principles.***

As described in Note 1 of the financial statements, the financial statements are prepared by the City of Atlantic City on the basis of the financial reporting provisions prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a basis of accounting other than accounting principles generally accepted in the United States of America, to meet the requirements of New Jersey.

The effects on the financial statements of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

***Adverse Opinion on U.S. Generally Accepted Accounting Principles***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on U.S Generally Accepted Accounting Principles" paragraph, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of each fund of the City of Atlantic City as of December 31, 2012 and 2011, or changes in financial position for the years then ended.

***Opinion on Regulatory Basis of Accounting***

In our opinion, the financial statements referred to above present fairly, in all material respects, the regulatory basis balances sheets and account group as of December 31, 2012 and 2011, the regulatory basis statements of operations for the years then ended and the regulatory basis statements of revenues and expenditures for the year ended December 31, 2012 in accordance with the basis of financial reporting prescribed by the



Division of Local Government Services, Department of Community Affairs, State of New Jersey as described in Note 1.

### ***Other Matters***

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Atlantic City's basic financial statements. The supplementary information listed in the table of contents and schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and the schedule of expenditures of state financial assistance as required by NJ OMB 04-04 and the letter of comments and recommendations section are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The supplemental information listed in the table of contents and the schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, the schedule of and the schedule of expenditures of state financial assistance as required by NJ OMB 04-04 are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental information listed in the table of contents, schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and the schedule of expenditures of state financial assistance as required by NJ OMB 04-04 are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The letter of comments and recommendations section has not been subject to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2013 on our consideration of the City of Atlantic City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial

reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Atlantic City's internal control over financial reporting and compliance.

*Ford, Scott & Associates, L.L.C.*  
**FORD, SCOTT & ASSOCIATES, L.L.C.**  
**CERTIFIED PUBLIC ACCOUNTANTS**

*Kenneth W. Moore*  
**Kenneth W. Moore**  
**Certified Public Accountant**  
**Registered Municipal Accountant**  
**No. 231**

**June 30, 2013**

## **EXHIBIT A - CURRENT FUND**

**CURRENT FUND  
COMPARATIVE BALANCE SHEET  
REGULATORY BASIS  
AS OF DECEMBER 31,**

	<u>Ref.</u>	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>			
Regular Fund:			
Cash - Treasurer	A-4	\$ 62,519,508	\$ 38,270,242
Amount Due from State of New Jersey			
Veterans and Senior Citizens		67,126	47,790
		<u>62,586,634</u>	<u>38,318,032</u>
Receivables and Other Assets with Full Reserves:			
Delinquent Property Taxes Receivable	A-6	71,562	135,244
Tax Title Liens Receivable	A-7	4,016,847	7,780,196
Property Acquired for Taxes	A-9	27,022,200	23,652,400
Demolition Assessments and Liens	A-8	1,421,514	1,295,559
Revenue Accounts Receivable	A-10	84,397	118,026
Due From:			
Animal Control Fund	B	1,253	262
CDBG		63,895	-
Federal and State Grant Fund	A	1,348,486	254,856
		<u>34,030,154</u>	<u>33,236,543</u>
Deferred Charges:			
Deficit in Operations		3,568,059	5,352,088
Emergency Authorization		1,000,000	-
Special Emergency		2,500,000	-
	A	<u>7,068,059</u>	<u>5,352,088</u>
		<u>103,684,847</u>	<u>76,906,663</u>

**CURRENT FUND  
COMPARATIVE BALANCE SHEET  
REGULATORY BASIS  
AS OF DECEMBER 31,**

ASSETS	<u>Ref.</u>	<u>2012</u>	<u>2011</u>
Federal and State Grant Fund:			
Cash	A-4	\$ 48,612	\$ 48,447
Due from Trust Fund - Other	B	757	757
Grants Receivable	A-13	24,701,193	21,036,161
		<u>24,750,562</u>	<u>21,085,365</u>
		<u>\$ 128,435,409</u>	<u>\$ 97,992,028</u>

**CURRENT FUND  
COMPARATIVE BALANCE SHEET  
REGULATORY BASIS  
AS OF DECEMBER 31,**

	<u>Ref.</u>	<u>2012</u>	<u>2011</u>
<b>LIABILITIES, RESERVES AND FUND BALANCE</b>			
Regular Fund:			
Liabilities:			
Appropriation Reserves	A-3:A-11	\$17,308,210	\$ 11,139,657
Reserve for Encumbrances	A-3	4,747,614	8,157,715
Accounts Payable		1,405,766	986,122
Inspection Surcharges - DCA		28,452	55,657
Marriage Licenses		8,746	9,450
Taxes Collected in Advance		1,419,347	651,362
Tax Overpayments		22,940,920	1,275,644
Payroll Deductions Payable		1,300,538	1,029,951
AC Endowment Fund		4,597,757	4,604,122
Local School Tax Payable	A-12	142,426	
Due to:			
CDBG	A	-	505,840
County - Added Taxes		1,415,464	5,420
Other Trust Funds	B	6,349,401	5,626,398
Reserve for:			
Performance Bonds		507,030	503,067
Police Property Room		50,338	46,733
State Tax Appeals Pending		4,399,447	7,700,000
Insurance		500,000	-
Preparation of Approved Tax Map		270,608	270,608
Miscellaneous		5,000	-
		<hr/>	<hr/>
		67,397,064	42,567,746
Reserves for Receivables			
and Other Assets	A	34,030,154	33,236,543
Fund Balance	A-1	<hr/> 2,257,629	<hr/> 1,102,374
		<hr/> 103,684,847	<hr/> 76,906,663

**CURRENT FUND  
COMPARATIVE BALANCE SHEET  
REGULATORY BASIS  
AS OF DECEMBER 31,**

	<u>Ref.</u>	<u>2012</u>	<u>2011</u>
LIABILITIES, RESERVES AND FUND BALANCE			
Federal and State Grant Fund:			
Encumbrances Payable	A-14	\$ 1,462,646	\$ 4,004,086
Due to Current	A	1,348,486	254,856
Reserve for Federal and State Grants			
- Appropriated	A-14	21,868,310	16,771,990
- Unappropriated		<u>71,120</u>	<u>54,433</u>
		<u>24,750,562</u>	<u>21,085,365</u>
		<u>\$128,435,409</u>	<u>\$ 97,992,028</u>

**CURRENT FUND  
COMPARATIVE STATEMENT OF OPERATIONS  
AND CHANGES IN FUND BALANCE - REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31,**

	<u>Ref.</u>	<u>2012</u>	<u>2011</u>
Revenue and Other Income Realized			
Fund Balance Utilized	A-2	\$ -	\$ 100,000
Miscellaneous Revenue Anticipated	A-2	39,359,238	46,306,043
Receipts from Delinquent Taxes	A-2	7,282,694	381,616
Receipts from Current Taxes	A-2	358,976,575	368,505,597
Non Budget Revenue	A-2:A-4	1,985,265	2,398,545
Other Credits to Income:			
Tax Appeal Refunding Bonds		18,500,000	4,675,000
Reserve for State Tax Appeals			-
Miscellaneous Credit		1,053	-
Reserve for Payroll Deduction - Canceled			149,186
Interfunds Returned		262	888,380
Unexpended Balance of Approp Reserves	A-11	5,375,598	1,550,554
Total Income		<u>431,480,685</u>	<u>424,954,921</u>
Expenditures			
Budget and Emergency Appropriations:			
Operations:			
Salaries and Wages	A-3	100,783,081	98,548,073
Other Expenses	A-3	84,591,307	89,181,560
Deferred Charges and Regulatory			
Expenditures	A-3	26,277,100	27,042,753
Capital Improvements	A-3	250,000	550,000
Municipal Debt Service	A-3	32,387,079	21,651,713
Local District School Tax	A-12	134,162,908	130,260,523
County Tax		52,734,385	46,707,683
County Share of Added Taxes		1,415,464	5,420
Special Improvement District Assessment		-	2,221,850
Prior Year Revenue Returned Created by Canceled Taxes			8,451,698
Interfund Created		1,190,016	-
Prior Year Revenue Returned		34,090	98,157
Total Expenditures		<u>433,825,430</u>	<u>424,719,430</u>
Excess/(Deficit) in Revenues		<u>(2,344,745)</u>	<u>235,491</u>



**CURRENT FUND  
COMPARATIVE STATEMENT OF OPERATIONS  
AND CHANGES IN FUND BALANCE - REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31,**

	<u>Ref.</u>	<u>2012</u>	<u>2011</u>
Adjustments to Income before Fund Balance:			
Expenditures included above which are by			
Statute Deferred Charges to Budget of			
Succeeding Year		<u>\$ 3,500,000</u>	<u>\$ -</u>
Statutory Excess to Fund Balance		1,155,255	235,491
Fund Balance January 1	A	<u>1,102,374</u>	<u>966,883</u>
		2,257,629	1,202,374
Decreased by:			
Utilization as Anticipated Revenue	A-1:A-2	<u>-</u>	<u>100,000</u>
Balance December 31	A	<u><u>\$ 2,257,629</u></u>	<u><u>\$ 1,102,374</u></u>

**CURRENT FUND**  
**STATEMENT OF REVENUES - REGULATORY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Ref.	ANTICIPATED BUDGET	SPECIAL NJS 40A:4-87	REALIZED	EXCESS OR (DEFICIT)
Fund Balance Anticipated	A-1		\$ -	\$ -	\$ -
Miscellaneous Revenues:					
Section A: Local Revenues					
Licenses:					
Alcoholic Beverages	A-10	150,000		152,348	2,348
Other	A-10	950,000		972,508	22,508
Fees and Permits	A-10	1,400,000		1,432,359	32,359
Fines and Costs:					
Municipal Court	A-10	1,300,000		1,221,258	(78,742)
Interest and Costs on Taxes	A-10	515,455		824,413	308,958
Parking Meters	A-10	600,000		603,046	3,046
Interest on Investments and Deposits	A-10	100,000		100,270	270
Refunds and Reimbursements	A-10	400,000		388,263	(11,737)
Rent and Sale of City Property	A-10	600,000		606,029	6,029
Towing Fees	A-10	275,000		311,710	36,710
Payments in Lieu of Taxes	A-10	2,601,656		2,277,978	(323,678)
Total Section A		8,892,111	-	8,890,182	(1,929)
Section B: State Aid Without Offsetting Appropriations					
Energy Receipts Tax	A-10	6,260,714		6,260,714	-
Total Section B		6,260,714	-	6,260,714	-

See Accompanying Notes to Financial Statements

**CURRENT FUND**  
**STATEMENT OF REVENUES - REGULATORY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

		ANTICIPATED			
	Ref.	BUDGET	SPECIAL NJS 40A:4-87	REALIZED	EXCESS OR (DEFICIT)
Section C: Dedicated Uniform Construction Code Fees Offset with Appropriations (NJS 40A:4-36 & NJAC 5:23-4.17)					
Uniform Construction Code Fees	A-10	\$ 2,000,000	\$ -	\$ 2,104,043	\$ 104,043
Total Section C		2,000,000	-	2,104,043	104,043
Section F: Special Items of General Revenue Anticipated with Prior Written Consent of Director of Local Government Services - Public and Private Revenues Offset with Appropriations					
Summer Food Program			88,313	88,313	-
Municipal Alliance and Alcoholism and Drug Abuse			28,695	28,695	-
County Environmental Health Act-Public Health			45,000	45,000	-
Body Armor			28,696	28,696	-
Recycling Tonage Grant		36,410	51,666	88,076	-
COPS in Shops			12,400	12,400	-
Ed Byrne Memorial Justice Assistance Grant			142,416	142,416	-
DWI			21,460	21,460	-
New Jersey State Department of Health					-
Women, Infants & Children (WIC)			723,100	723,100	-
HIV Counseling and Testing		418,700		418,700	-
CRDA - Boardwalk Lighting			2,543,000	2,543,000	-
CRDA - Law Enforcement			3,500,000	3,500,000	-
CRDA - Garden Pier		1,800,000		1,800,000	-
CRDA - Demolition		650,000	650,000	1,300,000	-
CRDA - Community Development Program		41,331		41,331	-

**CURRENT FUND**  
**STATEMENT OF REVENUES - REGULATORY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Ref.	ANTICIPATED BUDGET	SPECIAL NJS 40A:4-87	REALIZED	EXCESS OR (DEFICIT)
CRDA - Summer Concert			24,313	24,313	-
CRDA - Boardwalk Hall Basketball			166,000	166,000	-
CRDA - Demilition Tourism District			1,500,000	1,500,000	-
Clean Communities Program			64,412	64,412	-
Total Section F		2,946,441	9,589,471	12,535,912	0
Section G: Special Items of General Revenue Anticipated with Prior Written Consent of Director of Local Government Services - Other Special Items					
Uniform Fire Safety Act		\$ 255,000	\$ -	\$ 189,791	\$ (65,209)
Reserve to Pay Bonds		510,514		510,514	-
Atlantic City Municipal Utilities Authority		668,082		668,082	-
Capital Fund Surplus		2,500,000		2,500,000	-
Reserve for Tax Appeals		5,700,000		5,700,000	-
Total Section G		9,633,596	-	9,568,387	(65,209)
Total Miscellaneous Revenues	A-1	29,732,862	9,589,471	39,359,238	36,905
Receipts from Delinquent Taxes	A-1:A-2	500,000	-	7,282,694	6,782,694

**CURRENT FUND**  
**STATEMENT OF REVENUES - REGULATORY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	Ref.	ANTICIPATED BUDGET	SPECIAL NJS 40A:4-87	REALIZED	EXCESS OR (DEFICIT)
Amount to be Raised by Taxes for Support of Municipal Budget					
Local Tax for Municipal Purposes	A-2	198,563,049	-	167,463,261	(31,099,788)
Minimum Library Tax		5,921,880	-	5,921,880	-
Total Amount to be Raised by Taxes for Support of Municipal Budget		204,484,929	-	173,385,141	(31,099,788)
Budget Totals		234,717,791	9,589,471	220,027,073	(24,280,189)
Non-Budget Revenues:					
Other Non-Budget Revenue	A-2	-	-	1,985,265	1,985,265
		<u>\$234,717,791</u>	<u>\$ 9,589,471</u>	<u>\$ 222,012,338</u>	<u>\$ (22,294,924)</u>
	Ref.	A-3	A-3		

**CURRENT FUND  
STATEMENT OF REVENUES  
REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

Ref.

Analysis of Realized Revenues

Allocation of Current Tax Collections:

Revenue from Collections	A-1:A-6	\$358,976,575
Less: Reserve for Tax Appeals Pending		
State Tax Appeals		<u>-</u>
		358,976,575

Allocated to:

School, County, and Special Improvement		
District Taxes		<u>188,312,757</u>

Balance for Support of Municipal Budget Appropriations		170,663,818
--	--	-------------

Increased by:

Appropriation "Reserve for Uncollected		
Taxes"	A-3	<u>2,721,323</u>

Amount for Support of Municipal		
Budget Appropriations	A-2	<u><u>173,385,141</u></u>

Receipts from Delinquent Taxes:

Delinquent Tax Collections	A-6	21,853
Tax Title Lien Collections	A-7	<u>7,260,841</u>
		<u><u>\$ 7,282,694</u></u>

**CURRENT FUND  
STATEMENT OF REVENUES  
REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

Ref.

Analysis of Non-Budget Revenue

Miscellaneous Revenue not Anticipated:

Revenue Accounts Receivable:

Demolition Revenue	A-8	\$	6,526
Other Tax Collector Miscellaneous	A-5		<u>56,129</u>

Total		\$	62,655
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Treasurer:

Fringe Benefits	528,901
Police Detail	783,761
Bader Field Rentals	379,683
Sale of Property	32,998
FEMA Reimbursements	46,576
Senior Citizen and Veteran Administration	3,585
Escheat Tax Premiums	10,594
Other Miscellaneous	<u>136,512</u>

Total	A-4	1,922,610
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A-1:A-2 Cash	1,985,265
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<u>\$ 1,985,265</u>
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**CURRENT FUND**  
**STATEMENT OF EXPENDITURES - REGULATORY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	APPROPRIATIONS		EXPENDED			UNEXPENDED BALANCE CANCELLED	OVER- EXPENDED
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	ENCUMBERED	RESERVED		
DEPARTMENT OF ADMINISTRATION							
Mayors Office							
Salaries and Wages	\$ 291,792	\$ 291,792	\$ 181,539		\$ 110,253	\$ -	\$ -
Other Expenses	38,631	38,631	11,023	665	26,943		
Business Administrator's Office							
Salaries and Wages	296,112	303,112	288,474		14,638		
Other Expenses	235,000	3,735,000	144,142	502,417	3,088,441		
Solicitor's Office							
Salaries and Wages	991,717	996,717	957,196		39,521		
Other Expenses	1,580,500	1,784,500	1,541,785	235,718	6,997		
Administrative Services - Mail Room							
Salaries and Wages	84,351	84,351	80,678		3,673		
Other Expenses	158,950	158,950	155,559	390	3,001		
Municipal Court							
Salaries and Wages	1,756,160	1,729,160	1,430,211		298,949		
Other Expenses	153,600	173,600	129,178	35,606	8,816		
Prosecutor's Office							
Salaries and Wages	519,762	519,762	454,649		65,113		
Other Expenses	21,800	21,800	15,341	5,672	787		
Insurance							
Unemployment	1,100,000	1,100,000	502,731		-	597,269	
Liability	5,786,500	5,585,000	4,987,346	596,848	806		
Workers Compensation	5,061,000	5,074,500	5,060,014	13,486	1,000		
Employee Group	26,900,640	26,900,640	24,057,842	711,260	2,131,538		
Health Waiver - Employee Opt Out	100,000	100,000	70,055		2,945	27,000	
Public Defender							
Salaries and Wages	385,019	385,019	328,536		56,483		
Other Expenses	12,584	12,584	8,861	1,484	2,239		



**CURRENT FUND  
STATEMENT OF EXPENDITURES - REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	APPROPRIATIONS		EXPENDED			UNEXPENDED	OVER-
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	ENCUMBERED	RESERVED	BALANCE CANCELLED	
Miscellaneous							
Social Services Agencies	\$ 30,000	\$ 30,000		\$ 8,500	\$ 21,500	\$ -	\$ -
Assessor							
Salaries and Wages	285,732	285,732	266,434		19,298		
Other Expenses	501,809	501,809	401,882	41,793	58,134		
Data Processing/Management Information (MIS)							
Salaries and Wages	417,460	415,412	324,602		90,810		
Other Expenses	332,850	332,850	289,079	20,575	23,196		
DEPARTMENT OF HUMAN RESOURCES							
Director's Office							
Salaries and Wages	155,087	155,087	148,775		6,312		
Other Expenses	98,234	100,282	79,796	15,630	4,856		
Personnel Division							
Salaries and Wages	580,956	580,956	510,394		70,562		
Health Division							
Salaries and Wages	79,425	79,425	76,370		3,055		
DEPARTMENT OF PLANNING AND DEVELOPMENT							
Director's Office							
Salaries and Wages	145,932	147,432	141,490		5,942		
Other Expenses	31,900	31,900	7,181	20,597	4,122		
Planning Division							
Salaries and Wages	515,520	514,020	483,519		30,501		
Other Expenses	158,978	158,978	35,667	108,619	14,692		
Zoning Board							
Other Expenses	22,000	22,000	17,203	699	4,098		
DEPARTMENT OF REVENUE AND FINANCE							
Director's Office							
Salaries and Wages	267,560	267,560	255,027		12,533		
Other Expenses	57,400	57,400	46,501	2,654	8,245		

**CURRENT FUND  
STATEMENT OF EXPENDITURES - REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	APPROPRIATIONS		EXPENDED			UNEXPENDED	OVER-
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	ENCUMBERED	RESERVED	BALANCE CANCELLED	
Comptroller's Office							
Salaries and Wages	\$ 1,218,793	\$ 1,218,793	\$ 1,000,714		\$ 218,079	\$ -	\$ -
Other Expenses	60,850	60,850	22,257	9,377	29,216		
Tax Collector's Office							
Salaries and Wages	322,825	319,825	262,165		57,660		
Other Expenses	47,650	47,650	23,274	5,673	18,703		
Audit Services							
Other Expenses	145,000	145,000	145,000		-		
Purchasing							
Salaries and Wages	217,832	217,832	176,239		41,593		
Other Expenses	35,857	35,857	32,381	3,114	362		
Finance Division							
Salaries and Wages	152,489	155,489	149,304		6,185		
Other Expenses	3,480	3,480	185		3,295		
DEPARTMENT OF PUBLIC SAFETY							
Director's Office							
Salaries and Wages	175,565	175,565	141,696		33,869		
Other Expenses	5,700	5,700	3,302	175	2,223		
Police							
Salaries and Wages	37,236,791	37,236,791	35,831,075		1,405,716		
Other Expenses	1,615,942	1,615,942	856,206	691,387	68,349		
Police Civilian Division							
Salaries and Wages	4,363,973	4,363,973	3,408,294		955,679		
Other Expenses	66,060	66,060	17,921	25,176	22,963		
Emergency Services							
Salaries and Wages	2,511,453	2,511,453	2,401,240		110,213		
Other Expenses	214,038	214,038	156,476	49,311	8,251		
Fire							
Salaries and Wages	21,521,534	21,520,534	19,843,164		1,677,370		
Other Expenses	151,242	151,242	60,272	88,957	2,013		

**CURRENT FUND  
STATEMENT OF EXPENDITURES - REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	APPROPRIATIONS		EXPENDED			UNEXPENDED	OVER-
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	ENCUMBERED	RESERVED	BALANCE CANCELLED	
Fire Civilian							
Salaries and Wages	\$ 139,763	\$ 140,763	\$ 134,903		\$ 5,860	\$ -	\$ -
Uniform Fire Safety Act							
Salaries and Wages	1,516,852	1,516,852	1,381,402		135,450		
Other Expenses	2,110	2,110	1,927	175	8		
Communications							
Salaries and Wages	2,466,532	2,466,532	2,134,677		331,855		
Other Expenses	361,401	361,401	248,804	5,379	107,218		
DEPARTMENT OF PUBLIC WORKS							
Director's Office							
Salaries and Wages	684,544	684,544	652,992		31,552		
Other Expenses	822,270	865,270	562,524	256,812	45,934		
City Engineer							
Salaries and Wages	803,758	803,758	722,577		81,181		
Other Expenses	272,150	269,650	148,365	110,567	10,718		
Electrical Bureau							
Salaries and Wages	436,399	436,399	419,148		17,251		
Other Expense	23,166	21,466	13,274	4,263	3,929		
Parks							
Salaries and Wages	796,639	796,639	661,361		135,278		
Other Expenses	68,700	33,400	12,752	12,031	8,617		
Beach and Boardwalk							
Salaries and Wages	1,226,920	1,226,920	1,065,442		161,478		
Other Expenses	22,050	22,050	19,879	1,407	764		
Sanitation							
Salaries and Wages	2,417,902	2,302,902	1,961,021		341,881		
Other Expenses	2,061,700	2,058,200	1,394,049	477,630	186,521		
Asphalt Plant/Street Repairs							
Salaries and Wages	675,637	675,637	575,453		100,184		
Other Expenses	39,698	39,698	34,077	3,917	1,704		

**CURRENT FUND  
STATEMENT OF EXPENDITURES - REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	APPROPRIATIONS		EXPENDED			UNEXPENDED	OVER-
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	ENCUMBERED	RESERVED	BALANCE CANCELLED	
Paint and Sign Shop							
Salaries and Wages	\$ 255,192	\$ 255,192	\$ 223,531		\$ 31,661	\$ -	\$ -
Other Expenses	23,400	23,400	19,778	293	3,329		
Building Maintenance Division							
Salaries and Wages	2,310,110	2,310,110	1,888,010		422,100		
Other Expenses	54,050	54,050	38,333	6,473	9,244		
Community Services Act							
Other Expenses	705,000	720,000	692,830	26,452	718		
Vehicle Maintenance							
Other Expenses	2,500,000	2,600,000	2,312,280	187,720	100,000		
DEPARTMENT OF HEALTH AND HUMAN SERVICES							
Director's Office							
Salaries and Wages	308,102	308,102	269,320		38,782		
Other Expenses	215,600	215,600	65,599	40,195	109,806		
Health Administration							
Salaries and Wages	1,567,589	1,565,269	1,416,488		148,781		
Other Expenses	34,400	36,720	26,933	8,582	1,205		
Social Services							
Salaries and Wages	879,421	879,421	799,209		80,212		
Other Expenses	195,750	195,750	155,470	39,222	1,058		
Recreational and Cultural Affairs							
Salaries and Wages	2,272,867	2,272,867	1,901,026		371,841		
Other Expenses	371,000	371,000	350,903	12,401	7,696		
Clinical Services							
Salaries and Wages	126,650	126,650	67,565		59,085		
Other Expenses	1,002,160	1,002,160	989,642	784	11,734		
Animal Control Expense							
Other Expenses	43,200	43,200	39,600	3,600	-		

**CURRENT FUND**  
**STATEMENT OF EXPENDITURES - REGULATORY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	APPROPRIATIONS		EXPENDED			UNEXPENDED BALANCE CANCELLED	OVER- EXPENDED
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	ENCUMBERED	RESERVED		
DEPARTMENT OF NEIGHBORHOOD SERVICES							
Director's Office							
Salaries and Wages	\$ 188,376	\$ 188,376	\$ 180,353		\$ 8,023	\$ -	\$ -
Other Expenses	1,800	1,800	1,659	119	22		
Inspections							
Salaries and Wages	892,852	892,852	688,109		204,743		
Other Expenses	8,946	8,946	4,956	2,168	1,822		
Regulatory Division							
Salaries and Wages	617,000	617,000	447,040		169,960		
Other Expenses	10,700	10,700	9,494	505	701		
CITY COUNCIL							
Salaries and Wages	353,304	353,304	298,153		55,151		
Other Expenses	22,900	22,900	14,360	1,510	7,030		
CITY CLERK							
Salaries and Wages	428,918	428,918	402,445		26,473		
Other Expenses	296,465	296,465	103,993	19,951	172,521		
UNIFORM CONSTRUCTION CODE							
Salaries and Wages	2,058,282	2,058,282	1,874,525		183,757		
Other Expenses	25,745	25,745	18,543	4,888	2,314		
UNCLASSIFIED							
Electricity	1,850,000	1,850,000	1,454,125	39,493	356,382		
Street Lighting	1,800,000	1,800,000	1,521,520	94,891	183,589		
Telephone	857,000	836,000	628,163	30,494	177,343		
City Water Usage	325,000	316,000	252,711		63,289		
Gas	475,000	475,000	192,505	22,550	259,945		
Sewer	220,000	220,000	142,549	12	77,439		
Gasoline	1,600,000	1,600,000	1,363,625	133,682	102,693		
Codification of Ordinances	25,000	25,000	14,336	3,664	7,000		
Terminal Leave Payments	3,000,000	3,000,000	3,000,000		-		
Reserve for Tax Appeals	700,000	700,000	700,000		-		
TOTAL OPERATIONS WITHIN "CAPS"	162,682,005	166,173,005	144,734,553	4,747,613	16,066,570	624,269	-
Detail:							
Salaries and Wages	100,917,449	100,783,081	92,306,535	-	8,476,546	-	-
Other Expenses	61,764,556	65,389,924	52,428,018	4,747,613	7,590,024	624,269	-

**CURRENT FUND**  
**STATEMENT OF EXPENDITURES - REGULATORY BASIS**  
**FOR THE YEAR ENDED DECEMBER 31, 2012**

	APPROPRIATIONS		EXPENDED			UNEXPENDED	OVER-
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	ENCUMBERED	RESERVED	BALANCE CANCELLED	
DEFERRED CHARGES AND REGULATORY EXPENDITURES:							
(1) Deferred Charges:							
Canceled Grant 2010	\$ 355,950	\$ 355,950	\$ 355,950		\$ -		
TEC Elevator	1,000	1,000	1,000		-		
Operating Deficit	1,784,029	1,784,029	1,784,029		-		
(2) Statutory Expenditures:							
Contribution to:							
Public Employees' Retirement System	3,986,983	3,986,983	3,986,983		-		
Social Security	3,600,000	3,600,000	3,361,695		238,305		
Consolidated Police and Firemen's Pension Fund	342	342	342		-		
Police and Firemen's Retirement System of NJ	14,818,152	14,818,152	14,818,152		-		
Defined Contribution Retirement	26,000	35,000	32,838		2,162		
Lifeguard Pension	850,000	850,000	797,233		2,767	50,000	
Pension Increase Act - CPF	104,671	104,671	104,670		1		
Early Retirement - PERS	790,431	790,431	790,431		-		
TOTAL DEFERRED CHARGES AND REGULATORY EXPENDITURES	26,317,558	26,326,558	26,033,323	-	243,235	50,000	-
TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES WITHIN "CAPS"	188,999,563	192,499,563	170,767,876	4,747,613	16,309,805	674,269	-
OPERATIONS - EXCLUDED FROM "CAPS"							
Maintenance of Library	5,921,880	5,921,880	4,956,301	1	965,578		
Employee Group Insurance	1,327,860	1,327,860	1,327,860		-		
Body Armor		28,696	28,696		-		
Summer Food		88,313	88,313		-		
COPS in Shops		12,400	12,400		-		
Municipal Alliance on Alcoholism and Drug Abuse		28,695	28,695		-		

**CURRENT FUND  
STATEMENT OF EXPENDITURES - REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	APPROPRIATIONS		EXPENDED			UNEXPENDED BALANCE CANCELLED	OVER- EXPENDED
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	ENCUMBERED	RESERVED		
Atlantic County Enviromental Health Act - Public Health	-	45,000	45,000	-	-	-	-
Ed Byrne Memorial Justice Assistance Grant		142,416	142,416		-		
CRDA - Additional Demolition		1,500,000	1,500,000		-		
CRDA - Basketball Tourament		166,000	166,000		-		
CRDA - Demolition	650,000	1,300,000	1,300,000		-		
CRDA - Community Development Program	41,331	41,331	41,331		-		
CRDA - Garden Pier	1,800,000	1,800,000	1,800,000		-		
HIV Counseling & Testing	418,700	418,700	418,700		-		
CRDA - Law Enforcement Technology		3,500,000	3,500,000		-		
CRDA - Street Lighting Project		2,543,000	2,543,000		-		
CRDA - Summer Concerts		24,313	24,313		-		
Drunk Driving Enforcement		21,460	21,460		-		
Women, Infants and Children (WIC)		723,100	723,100		-		
Clean Communities		64,412	64,412		-		
Recycling Tonnage	36,410	88,076	88,076		-		
Match for Grant Funds	40,000	40,000	7,173		32,827		
<b>TOTAL OPERATIONS EXCLUDED FROM "CAPS"</b>	<b>10,236,181</b>	<b>19,825,652</b>	<b>18,827,246</b>	<b>1</b>	<b>998,405</b>	<b>-</b>	<b>-</b>
Detail:							
Salaries and Wages							
Other Expenses	10,236,181	19,825,652	18,827,246	1	998,405	-	-

**CURRENT FUND  
STATEMENT OF EXPENDITURES - REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	APPROPRIATIONS		EXPENDED			UNEXPENDED	OVER-
	BUDGET	BUDGET AFTER MODIFICATION	PAID OR CHARGED	ENCUMBERED	RESERVED	BALANCE CANCELLED	EXPENDED
CAPITAL IMPROVEMENTS - EXCLUDED FROM "CAPS"							
Capital Improvement Fund	\$ 250,000	\$ 250,000	\$ 250,000	\$ -	\$ -	\$ -	\$ -
TOTAL CAPITAL IMPROVEMENTS - EXCLUDED FROM "CAPS"	250,000	250,000	250,000	-	-	-	-
MUNICIPAL DEBT SERVICE - EXCLUDED FROM "CAPS"							
Payment of Bond Principal	27,635,000	27,705,000	27,705,000		-	-	
Interest on Bonds	4,875,182	4,805,182	4,682,079		-	123,103	
TOTAL MUNICIPAL DEBT SERVICE - EXCLUDED FROM "CAPS"	32,510,182	32,510,182	32,387,079	-	-	123,103	-
DEFERRED CHARGES - MUNICIPAL - EXCLUDED FROM CAPS							
(1) Deferred Charges							
Special Emergency		-			-		
Ordinance 51-10	542	542	542		-		
TOTAL DEFERRED CHARGES - MUNICIPAL - EXCLUDED FROM "CAPS"	542	542	542	-	-	-	-
TOTAL GENERAL APPROPRIATIONS FOR MUNICIPAL PURPOSES EXCLUDED FROM "CAPS"	42,996,905	52,586,376	51,464,867	1	998,405	123,103	-
SUBTOTAL GENERAL APPROPRIATIONS	231,996,468	245,085,939	222,232,743	4,747,614	17,308,210	797,372	-
Reserve for Uncollected Taxes	2,721,323	2,721,323	2,721,323		-		
TOTAL GENERAL APPROPRIATIONS	\$ 234,717,791	\$ 247,807,262	\$ 224,954,066	\$ 4,747,614	\$ 17,308,210	\$ 797,372	\$ -
	A-2		A-1	A	A:A-1		
Budget	original	\$ 234,717,791					
Special Emergency		\$ 3,500,000					
Appropriations by 40A:4-87	A-2	9,589,471					
		<u>\$ 247,807,262</u>					



**CURRENT FUND  
STATEMENT OF EXPENDITURES  
REGULATORY BASIS  
FOR THE YEAR ENDED DECEMBER 31, 2012**

	<u>Ref.</u>	<u>PAID OR CHARGED</u>
Federal and State Grants	A-14	\$ 12,543,085
Deferred Charges		1,785,571
Reserve for Tax Appeals		700,000
Prior Grant Appropriated		355,950
Reserve for Uncollected Taxes		2,721,323
Disbursed	A-4	<u>206,848,137</u>
		<u><u>\$ 224,954,066</u></u>

## **EXHIBIT B - TRUST FUND**

**TRUST FUND  
COMPARATIVE BALANCE SHEET  
REGULATORY BASIS  
AS OF DECEMBER 31,**

	Ref.	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>			
Animal Control Fund:			
Cash	B-1	<u>\$ 2,996</u>	<u>\$ 2,593</u>
		<u>2,996</u>	<u>2,593</u>
Community Development Block Grant:			
Cash	B-1	2,693	3,307
Community Development Block Grant Receivable		2,688,570	1,891,947
HOME Receivable		719,138	530,021
Loans Receivable		626,527	637,756
Deferred Loan		4,055,103	4,055,103
Due to Current Fund		-	505,840
		<u>8,092,031</u>	<u>7,623,974</u>
Other Funds:			
Cash - Treasurer	B-1	6,316,128	6,142,785
Cash - Collector	B-2	870,556	1,230,248
Police Detail Receivable		337,392	356,165
Tax Title Lien Receivable		73,636	73,636
Due from Taxpayers - Tax Title Lien		759	759
Due from Current Fund	B-5	6,349,401	5,626,398
Loan Receivable - NPP Program		<u>1,254</u>	<u>1,254</u>
		<u>13,949,126</u>	<u>13,431,245</u>
		<u><u>\$ 22,044,153</u></u>	<u><u>\$ 21,057,812</u></u>

**TRUST FUND  
COMPARATIVE BALANCE SHEET  
REGULATORY BASIS  
AS OF DECEMBER 31,**

	Ref.	2012	2011
<b>LIABILITIES, RESERVES AND FUND BALANCE</b>			
Animal Control Fund:			
Reserve for Dog Fund Expenditures	B-3	\$ 1,743	\$ 2,331
Due to State of NJ		-	-
Amount Due to Current Fund	A	1,253	262
		<u>2,996</u>	<u>2,593</u>
Community Development Block Grant:			
Reserve for Community Development			
Block Grant - Appropriated	B-7	3,346,354	2,931,099
Reserve for Loans Receivable		4,681,630	4,692,859
Due to Current		63,895	-
Unappropriated Reserves	B-8	152	16
		<u>8,092,031</u>	<u>7,623,974</u>
Other Funds:			
Deposits for Redemption of			
Tax Sale Certificates		282,649	601,367
Premiums on Tax Sale Deposits		485,500	627,000
Due to Taxpayers - Tax Title Lien		102,407	1,881
Reserve for Receivables - Tax Title Lien		74,395	74,395
Overpaid Special Detail Services		72,937	50,057
Reserve for:			
Loan Receivable - NPP Program		1,254	1,254
Planning Development Escrow	B-6	301,710	395,862
Police Detail	B-6	841,591	745,000
Self-Insurance (Workers Compensation)	B-6	2,932,381	2,173,018
Self-Insurance (General Liability)	B-6	2,617,302	2,481,058
Neighborhood Preservation Program	B-6	10,849	10,849
Law Enforcement	B-6	208,430	195,874
Uniform Fire Penalties	B-6	140,455	153,836
Unemployment Compensation	B-6	634,422	776,876
Parking Offenses Adjudication Act	B-6	18,535	35,694
Environmental Quality and Enforcement	B-6	11,238	12,344
Accumulated Sick and Vacation	B-6	5,212,314	5,094,123
Due to Federal and State Grant Fund	A	757	757
		<u>13,949,126</u>	<u>13,431,245</u>
		<u>\$ 22,044,153</u>	<u>\$ 21,057,812</u>

See Accompanying Notes to Financial Statements

## **EXHIBIT C - CAPITAL FUND**

**GENERAL CAPITAL FUND  
COMPARATIVE BALANCE SHEET  
REGULATORY BASIS  
AS OF DECEMBER 31,**

	<u>Ref.</u>	<u>2012</u>	<u>2011</u>
<b>ASSETS</b>			
Cash and Investments	C-2	\$ 10,059,570	\$ 43,441,422
Deferred Charges to Future Taxation			
Funded	C-3	210,924,000	140,619,000
Unfunded	C-4	9,500,000	542
		<u>230,483,570</u>	<u>184,060,964</u>
<b>LIABILITIES, RESERVES AND FUND BALANCE</b>			
Bond Anticipation Notes	C-7	-	-
General Serial Bonds	C-8	85,604,000	98,249,000
Tax Appeal Refunding Bonds	C-9	125,320,000	42,370,000
Encumbrances Payable	C-6	2,080,406	2,764,881
Improvement Authorizations			
Funded	C-6	6,956,618	36,778,375
Unfunded	C-6	-	542
Reserve for Payment of Bonds		819,493	519,970
Capital Improvement Fund	C-5	568,043	318,043
Fund Balance	C-1	<u>9,135,010</u>	<u>3,060,153</u>
		<u>\$ 230,483,570</u>	<u>\$ 184,060,964</u>

There were bonds and notes authorized but not issued at December 31, 2012 and 2011 of \$9,500,000 and \$542 (C-10)

**GENERAL CAPITAL FUND  
SCHEDULE OF FUND BALANCE  
REGULATORY BASIS  
AS OF DECEMBER 31,**

	<u>Ref.</u>	<u>2012</u>	<u>2011</u>
Balance beginning	C	\$ 3,060,153	\$ 2,695,223
Increased by:			
Canceled Improvement Authorizations	C-6	-	246,027
Premium on Sale of Bonds	C-2	8,574,857	118,903
		<u>8,574,857</u>	<u>364,930</u>
Decreased by:			
Transfer to Current Fund		2,500,000	-
		<u>2,500,000</u>	<u>-</u>
Balance ending	C	<u><u>\$ 9,135,010</u></u>	<u><u>\$ 3,060,153</u></u>

**EXHIBIT G - GENERAL FIXED ASSETS ACCOUNT GROUP**



**STATEMENT OF GENERAL FIXED ASSETS  
REGULATORY BASIS  
AS OF DECEMBER 31,**

	<u>2012</u>	<u>2011</u>
General Fixed Assets:		
Land	\$ 337,463,712	\$ 337,487,210
Land Improvements	8,274,940	8,274,940
Buildings	63,511,831	63,511,831
Machinery and Equipment	24,610,914	24,129,330
Vehicles	<u>22,676,046</u>	<u>23,990,215</u>
	<u>456,537,443</u>	<u>457,393,526</u>
Investment in General Fixed Assets	<u>\$456,537,443</u>	<u>\$ 457,393,526</u>

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## **Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### **A. Reporting Entity**

The City of Atlantic City is a resort community in the County of Atlantic, State of New Jersey. The City covers an area of approximately 12 square miles with a population according to the 2010 census of 39,558. The City operates under a Mayor and Council form of government with the Mayor being the chief executive officer of the City and directly elected by the voters. The City Council is the law making body and passes all resolutions and ordinances. The City also employs a City Administrator who is responsible for the day to day operations of the City. Except as noted below, the financial statements of the City of Atlantic City include every board, body, office or commission supported and maintained wholly or in part by funds appropriated by the City of Atlantic City, as required by N.J.S. 40A:5-5.

Component units are legally separate organizations for which the City is financially accountable. The City is financially accountable for an organization if the City appoints a voting majority of the organization's governing board and (1) the City is able to significantly influence the programs or services performed or provided by the organization; or (2) the City is legally entitled to or can otherwise access the organization's resources; the City is legally obligated or has otherwise assumed the responsibility to finance the deficits of or provide financial support to the organization; or the City is obligated for the debt of the organization. Component units may also include organizations that are fiscally dependent on the City in that the City approves the budget, the issuance of debt or the levying of taxes. If the City reported under GAAP, the Atlantic City Municipal Utility Authority, 401 N. Virginia Avenue, Atlantic City would be considered a component unit. Complete financial statements for the component unit may be obtained at the entity's administrative offices.

### **B. Description of Funds**

The accounting policies of the City of Atlantic City conform to the accounting principles applicable to municipalities that have been prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey. Such principles and practices are designed primarily for determining compliance with legal provisions and budgetary restrictions and as a means of reporting on the stewardship of public officials with the respect to public funds. Under this method of accounting, the City of Atlantic City accounts for its financial transactions through the following separate funds:

Current Fund -- resources and expenditures for governmental operations of a general nature, including Federal and State grant funds.

Trust Funds -- receipts, custodianship and disbursement of funds in accordance with the purpose for which each reserve was created.

General Capital Fund -- receipt and disbursement of funds for the acquisition of general facilities, other than those acquired in the Current Fund.

General Fixed Assets Account Group -- All fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in governmental funds.

### **C. Basis of Accounting**

The accounting principles and practices prescribed for municipalities by the State of New Jersey differ in certain respects from accounting principles generally accepted in the United States of America applicable to local governmental units. The more significant policies in New Jersey follow. A modified accrual basis of accounting is followed with minor exceptions.

Revenues -- are recorded as received in cash except for certain amounts that are due from other governmental units. Receipts from Federal and State grants are realized as revenue when anticipated in the City budget. Receivables for property taxes are recorded with offsetting reserves on the balance sheet of the City's Current Fund; accordingly, such amounts are not recorded as revenue until collected. Other amounts that are due to the City which are susceptible to accrual are also recorded as receivables with offsetting reserves and recorded as revenue when received.

Expenditures -- are recorded on the "budgetary" basis of accounting. Generally expenditures are recorded when an amount is encumbered for goods or services through the issuance of a purchase order in conjunction with the Encumbrance Accounting System. Outstanding encumbrances at December 31, are reported as a cash liability in the financial statements. Appropriation reserves covering unexpended appropriation balances are automatically created at December 31st of each year and recorded as liabilities, except for amounts that may be canceled by the Governing Body. Appropriation reserves are available, until lapsed at the close of the succeeding year, to meet specific claims, commitments or contracts incurred during the preceding fiscal year. Lapsed appropriation reserves are recorded as income. Appropriations for principal payments on outstanding general capital and notes are provided on the cash basis; interest on general capital indebtedness is on the cash basis.

Foreclosed Property -- Foreclosed property is recorded in the Current Fund at the assessed valuation when such property was acquired and is fully reserved.

Interfunds -- Interfund receivables in the Current Fund are recorded with offsetting reserves which are created by charges to operations. Income is recognized in the year the receivables are liquidated. Interfund receivables in the other funds are not offset by reserves.

Inventories of Supplies - The cost of inventories of supplies for all funds are recorded as expenditures at the time individual items are purchased. The cost of inventories are not included on the various balance sheets.

General Fixed Assets -- The City has developed a fixed assets accounting and reporting system, as promulgated by the Division of Local Government Services, which differs in certain respects from

accounting principles generally accepted in the United States of America.

As required by New Jersey Statutes, foreclosed property is reported in the current operating fund of the municipality.

Fixed assets used in governmental operations (general fixed assets) are accounted for in the General Fixed Assets Account Group. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, such as roads, bridges, curbs and gutters, streets and sidewalks and drainage systems are not capitalized.

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available except for land which is valued at estimated market value at the time the land is foreclosed or donated. Land purchased by the City is valued at cost.

No depreciation has been provided for in the financial statements.

Expenditures for construction in progress are recorded in the Capital Funds until such time that construction is completed and put into operation.

Fixed assets acquired through grants in aid or contributed capital have been accounted for separately.

The following schedule is a summarization of the changes in general fixed assets for the most recent calendar year ended December 31, 2012 and 2011.

	Balance as of 12/31/10	Additions	Disposals	Adjustments	Balance as of 12/31/11
Land	\$ 328,574,210	\$ 9,523,300	\$ 610,300		\$ 337,487,210
Land Improvements	8,123,484	151,456			8,274,940
Buildings	63,498,512	13,319			63,511,831
Machinery and Equipment	23,515,233	908,216	294,119		24,129,330
Vehicles	24,179,510	1,091,176	1,280,471		23,990,215
	<u>\$ 447,890,949</u>	<u>\$ 11,687,467</u>	<u>\$ 2,184,890</u>	<u>\$ -</u>	<u>\$ 457,393,526</u>

	Balance as of 12/31/11	Additions	Disposals	Balance as of 12/31/12
Land	\$ 337,487,210	\$ 35,002	\$ 58,500	\$ 337,463,712
Land Improvements	8,274,940			8,274,940
Buildings	63,511,831			63,511,831
Machinery and Equipment	24,129,330	683,143	201,559	24,610,914
Vehicles	23,990,215	365,054	1,679,223	22,676,046
	<u>\$ 457,393,526</u>	<u>\$ 1,083,199</u>	<u>\$ 1,939,282</u>	<u>\$ 456,537,443</u>

Levy of Taxes -- The County Board of Taxation certifies the tax levy of the municipality each year. The tax levy is based on the assessed valuation of taxable property within the municipality. Taxes are payable on the first day of February, May, August, and November. Any taxes that have not been paid by the 11th day of the 11th month in the fiscal year levied are subject to being included in the tax sale and the lien enforced by selling the property in accordance with NJSA 54:5 et seq.

The municipality is responsible for remitting 100% of the school and county taxes to the respective agency. The loss for delinquent or uncollectible accounts is borne by the municipality and not the school district, county or improvement district.

Capitalization of Interest -- It is the policy of the City of Atlantic City to treat interest on projects as a current expense and the interest is included in the current operating budget.

Use of Estimates -- The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America or the regulatory basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

#### **D. Comparative Data**

Comparative total data for the prior year has been presented in the accompanying Balance Sheets and Statement of Operations in order to provide an understanding of changes in the City's financial position. However, comparative (i.e., presentation of prior year totals by fund type) data have not been presented in the Statement of Revenue-Regulatory Basis and Statement of Expenditures-Regulatory Basis since their inclusion would make the statements unduly complex and difficult to read.

#### **E. Recent Accounting Pronouncements Not Yet Effective**

In November 2010, the Governmental Accounting Standards Board (GASB) issued Statement No. 61 "The Financial Reporting Entity: Omnibus an amendment of GASB Statements No. 14 and No. 34". The purpose of the statement is to amend the criteria for reporting and including component

units with the primary government. This statement, which is effective for fiscal periods beginning after June 15, 2012, is not anticipated to have any effect on the City's financial reporting.

In April 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 65 "Items Previously Reported as Assets and Liabilities". This statement, which clarifies the reporting requirements related to deferred assets and liabilities, is effective for fiscal periods beginning after December 15, 2012, is not anticipated to have any effect on the City's financial reporting.

In April 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 66 "Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62". This statement, which resolves conflicts between Statements No. 10 and No. 54 provides more flexibility in fund classifications for risk based activities, is effective for fiscal periods beginning after December 15, 2012, is not anticipated to have any effect on the City's financial reporting.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 67 "Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25". This statement, which is effective for fiscal periods beginning after June 15, 2013, will not have any effect on the City's financial reporting.

In June 2012, the Governmental Accounting Standards Board (GASB) issued Statement No. 68 "Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27". This statement, which is effective for fiscal periods beginning after June 15, 2014, will not have any effect on the City's financial reporting.

In January 2013, the Governmental Accounting Standards Board (GASB) issued Statement No. 69 "Government Combinations and Disposals of Government Operations". This statement, which is effective for fiscal periods beginning after December 15, 2013, will not have any effect on the City's financial reporting.

In April 2013, the Governmental Accounting Standards Board (GASB) issued Statement No. 70 "Accounting and Financial Reporting for Nonexchange Financial Guarantees". This statement, which is effective for fiscal years beginning after June 15, 2013, will not have any impact on the financial position of the City but will require due diligence analysis and specific disclosure in the financial statements.

## **Note 2: BUDGETARY INFORMATION**

Under New Jersey State Statutes, the annual budget is required to be a balanced cash basis document. To accomplish this, the municipality is required to establish a reserve for uncollected taxes. The 2012 and 2011 statutory budgets included a reserve for uncollected taxes in the amount of \$2,721,323 and \$2,709,201. To balance the budget, the municipality is required to show a budgeted fund balance. The amount of fund balance budgeted to balance the 2012 and 2011 statutory budgets was \$0 and \$100,000.

The Chief Financial Officer has the discretion of approving intra department budgetary transfers throughout the year. Inter department transfers are not permitted prior to November 1. After November 1 these transfers can be made in the form of a resolution and approved by City Council. The following significant budget transfers were approved in the 2012 calendar year:

Budget Category	
Insurance	
Liability	\$ (201,500)
Solicitor's Office	
Other Expenses	\$ 204,000
Sanitation	
Salaries & Wages	115,000
Vehicle Maintenance	
Other Expenses	100,000

NJSA 40A:4-87 permits special items of revenue and appropriations to be inserted into the annual budget when the item has been made available by any public or private funding source and the item was not determined at the time of budget adoption. During 2012, the following significant budget insertions were approved:

Ed Byrne Justice Assistance Grant	\$ 142,416
NJ Department of Health	
Women, Infants & Children	723,100
Clean Communities Program	64,412
HIV Counseling and Testing	418,700
CRDA - Boardwalk Lighting	2,543,000
CRDA - Demolition	650,000
CRDA - Demolition Tourism District	1,500,000
CRDA - Boardwalk Hall Basketball	166,000
CRDA - Summer Concert	24,313
CRDA - Law Enforcement Technology	3,500,000
DWI	21,460
COPS in Shops	12,400
Recycling Tonnage Grant	51,666
Body Armor	28,696
CEHA	45,000
Summer Food	88,313
Municipal Alliance and Alcoholism	28,695



The municipality may make emergency appropriations, after the adoption of the budget, for a purpose which was not foreseen at the time the budget was adopted or for which adequate provision was not made therein. This type of appropriation shall be made to meet a pressing need for public expenditure to protect or promote the public health, safety, morals or welfare or to provide temporary housing or public assistance prior to the next succeeding fiscal year. Emergency appropriations, except those classified as a special emergency, must be raised in the budgets of the succeeding year. Special emergency appropriations are permitted to be raised in the budgets of the succeeding three or five years. The City authorized a special emergency for \$2,500,000 and an emergency authorization for \$1,000,000, both emergencies were a result of hurricane Sandy.

### **Note 3: INVESTMENTS**

**Interest Rate Risk.** The municipality does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. However, New Jersey Statutes 40A:5-15.1(a) limits the length of time for most investments to 397 days.

**Credit Risk.** New Jersey Statutes 40A:5-15.1(a) limits municipal investments to those specified in the Statutes. The type of allowable investments are Bonds of the United States of America or of the local unit or school districts of which the local unit is a part of: obligations of federal agencies not exceeding 397 days; government money market mutual funds; the State of New Jersey Cash Management Plan; local government investment pools; or repurchase of fully collateralized securities.

**Concentration of Credit Risk.** The municipality places no limit on the amount the City may invest in any one issuer.

### **Note 4: CASH**

**Custodial Credit Risk – Deposits.** Custodial credit risk is the risk that in the event of a bank failure, the government's deposits may not be returned to it. The municipality's policy is based on New Jersey Statutes requiring cash be deposited only in New Jersey based banking institutions that participate in the New Jersey Governmental Depository Protection Act (GUDPA) or in qualified investments established in New Jersey Statutes 40A:5-15.1(a) that are treated as cash equivalents. As of December 31, 2012 and 2011, \$0 and \$0 of the municipality's bank balance of \$83,037,065 and \$93,008,583, respectively were exposed to custodial credit risk.

**Note 5: LONG TERM DEBT**

Long-term debt as of December 31, 2012 consisted of the following:

	Balance Beginning	Additions	Reductions	Balance Ending	Due in One Year
General	\$ 140,619,000	\$ 114,160,000	\$ 43,855,000	\$ 210,924,000	\$ 29,225,000
Comp Absences	34,773,267	8,732,526	12,754,056	30,751,737	
Total	<u>\$ 175,392,267</u>	<u>\$ 122,892,526</u>	<u>\$ 56,609,056</u>	<u>\$ 241,675,737</u>	<u>\$ 29,225,000</u>

**Paid by Current Fund:**

\$25,600,000 General Obligation Refunding Bonds (Capital Appreciation Bonds) dated 7/16/92 payable in annual installments through 7/16/13. \$2,560,000 of principal was paid on 8/1/12. The balance remaining as of December 31, 2012 was \$2,560,000.

\$34,800,000 General Improvement Bond dated 8/1/03 payable in annual installments through 8/1/10. \$3,200,000 of principal was paid on 8/1/12. Interest is paid semiannually at rates from 2.00% to 4.125% per annum. The balance of \$16,150,000 was refunded through the issue of \$15,710,000 of 2012 Refunding Bonds. The Net Present Value Benefit was \$606,384. The balance remaining as of December 31, 2012 was \$0.

\$29,010,000 General obligation refunding bonds dated 6/23/05 with principal payments starting 8/15/09 and ending 8/15/15. \$4,425,000 of principal was paid on 8/15/12. Semiannual interest payments began 8/15/09 with annual rates of 4.0% to 5.0%. The balance remaining as of December 31, 2012 was \$11,315,000. The refunding bonds replaced \$29,500,000 of the series 1998 General obligation bonds. The net present value savings exceeded \$900,000.

\$17,980,000 General obligation bonds dated 1/15/05 with principal payments starting 1/15/06 and ending 1/15/18. \$1,500,000 of principal was paid on 1/15/12. Semiannual interest payments began 7/15/05 with annual rates of 3.0% to 4.0%. The balance remaining as of December 31, 2012 was \$10,480,000.

\$26,500,000 General obligation bonds dated 2/15/08 with principal payments starting 2/15/09 and ending 2/15/18. \$3,000,000 of principal was paid on 2/15/12. Semiannual interest payments began 2/15/09 with annual rates of 2.25% to 5.5%. The balance remaining as of December 31, 2012 was \$18,000,000.

\$10,750,000 General obligation refunding bonds dated 12/15/10 with principal payments starting 12/15/11 and ending 12/15/15. \$2,100,000 of principal was paid on 12/15/12. Semiannual interest payments began 6/15/11 with annual rates of 2.0% to 3.00%. The balance remaining as of

December 31, 2012 was \$6,605,000. \$10,750,000 of the refunding bonds replaced \$10,475,000 of the series 2000 General obligation refunding bonds. The net present value savings exceeded \$521,000.

\$8,720,000 Tax appeal refunding bonds dated 12/15/10 with principal payments starting 12/15/11 and ending 12/15/15. \$1,675,000 of principal was paid on 12/15/12. Semiannual interest payments began 6/15/11 with annual rates of 3.0% to 4.75%. The balance remaining as of December 31, 2012 was \$5,410,000. \$6,925,000 of this issue was taxable for federal and state income taxes based on the purpose of the bond ordinance and in the opinion of Bond Council.

\$16,354,000 General Improvement bonds dated 2/1/11 with principal payments starting 2/1/12 and ending 2/1/22. \$800,000 of principal was paid on 2/1/12. Semiannual interest payments began 8/1/11 with annual rates of 3.0% to 5.00%. The balance remaining as of December 31, 2012 was \$15,554,000.

\$35,285,000 Tax appeal refunding bonds dated 12/15/11 with principal payments starting 12/15/12 and ending 12/15/16. \$8,375,000 of principal was paid on 12/15/12. Semiannual interest payments began 6/15/12 with annual rates of 1.40% to 3.299%. The balance remaining as of December 31, 2012 was \$26,910,000. This entire issue was taxable for federal and state income taxes based on the purpose of the bond ordinance and in the opinion of Bond Council.

\$15,710,000 General obligation refunding bonds dated 4/1/12 with principal payments starting 10/1/12 and ending 4/1/17. \$70,000 of principal was paid on 10/1/12. Semiannual interest payments begin 4/1/13 with annual rates of 3.0% to 5.00%. The balance remaining as of December 31, 2012 was \$15,640,000. \$15,710,000 of the refunding bonds replaced \$16,150,000 of the series 2003 General obligation refunding bonds. The net present value savings exceeded \$606,000.

\$5,450,000 Pension refunding bonds dated 4/1/12 with principal payments starting 4/1/13 and ending 4/1/21. Semiannual interest payments began 4/1/13 with annual rates of 2.314% to 4.756%. The balance remaining as of December 31, 2012 was \$6,605,000. \$5,450,000 of the pension refunding bonds replaced \$5,325,035 of State of New Jersey PERS ERI Program debt. The net present value savings exceeded \$421,000.

\$93,000,000 Tax appeal refunding bonds dated 12/5/12 with principal payments starting 11/1/13 and ending 11/1/32. Semiannual interest payments will begin 5/1/13 with annual rates of 1.388% to 5.00%. The balance remaining as of December 31, 2012 was \$93,000,000. \$2,620,000 of this issue was taxable for federal and state income taxes based on the purpose of the bond ordinance and in the opinion of Bond Council.

Schedule of Annual Debt Service for Principal and Interest for Bonded Debt Issued and Outstanding

Calendar Year	General Capital Principal	Total Interest	Total
2013	\$ 29,225,000	\$ 7,527,330	\$ 36,752,330
2014	26,175,000	7,039,172	33,214,172
2015	23,525,000	6,146,726	29,671,726
2016	22,505,000	5,259,855	27,764,855
2017	15,165,000	4,364,848	19,529,848
2018-2022	40,824,000	14,411,485	55,235,485
2023-2027	28,480,000	7,212,200	35,692,200
2028-2032	25,025,000	2,223,350	27,248,350
	<u>\$ 210,924,000</u>	<u>\$ 54,184,966</u>	<u>\$ 265,108,966</u>

As of December 31, 2012, the carrying value of the above bonds approximates the fair value of the bonds.

<u>Summary of Municipal Debt</u>	<u>Year 2012</u>	<u>Year 2011</u>	<u>Year 2010</u>
<u>Issued:</u>			
General:			
Bonds & Notes Issued	\$ 210,924,000	\$ 140,619,000	\$ 106,335,000
Notes	-	-	5,000,000
Less: Funds Temporarily Held to Pay			
Bonds and Notes	819,493	519,970	252,275
Net Debt Issued	<u>210,104,507</u>	<u>140,099,030</u>	<u>111,082,725</u>
<u>Authorized but not issued:</u>			
General:			
Bonds and notes	<u>9,500,000</u>	<u>542</u>	<u>11,354,542</u>
Bonds & Notes Authorized But Not Issued	<u>9,500,000</u>	<u>542</u>	<u>11,354,542</u>
Net Bonds & Notes Issued and Authorized But Not Issued	<u>\$ 219,604,507</u>	<u>\$ 140,099,572</u>	<u>\$ 122,437,267</u>

### Summary of Statutory Debt Condition - Annual Debt Statement

The summarized statement of debt condition which follows is prepared in accordance with the required method of setting up the Annual Debt Statement and indicates a statutory net debt of 1.35%.

	Gross Debt	Deductions	Net Debt
Local School District Debt	\$ 107,191,000	\$ 107,191,000	\$ -
General Debt	241,504,329	21,899,822	219,604,507
	<u>\$ 348,695,329</u>	<u>\$ 129,090,822</u>	<u>\$ 219,604,507</u>

Net Debt \$219,604,507 / Equalized Valuation Basis per NJSA 40A:2-2 as amended, \$16,309,079,388 = 1.35%.

The foregoing information is in agreement with the Annual Debt Statement filed with the Division of Local Government Services.

### Borrowing Power Under N.J.S.A. 40A:2-6 as Amended

3 1/2 % of Equalized Valuation Basis ( Municipal)	\$ 570,817,779
Net Debt	219,604,507
Remaining Borrowing Power	<u>\$ 351,213,272</u>

The City of Atlantic City School District, as a K-12 school district, is permitted to borrow up to 4% of the average equalized valuation for the past three years. State statutes allow a school district to exceed the districts limitation with voter approval. Any amounts approved by the voters in excess of the limit is treated as an impairment of the municipal limit.

### **Note 6: FUND BALANCES APPROPRIATED**

Fund balances at December 31, 2012, which were appropriated and included as anticipated revenue in their own respective funds for the year ending December 31, 2013 were as follows:

Current Fund	\$0
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**Note 7: DEFERRED CHARGES TO BE RAISED IN SUCCEEDING BUDGETS**

Certain expenditures are required to be deferred to budgets of succeeding years. At December 31, 2012, the following deferred charges are shown on the balance sheets of the various funds:

	Balance December 31, 2012	2013 Budget Appropriation	Balance to Succeeding
Current fund:			
Deficit in Operations	\$ 3,568,059	\$ 1,784,029	\$1,784,030
Emergency Authorization	1,000,000	1,000,000	
Special Emergency	* 2,500,000	-	-
	<u>\$ 7,068,059</u>	<u>\$ 2,784,029</u>	<u>\$1,784,030</u>

The appropriations in the 2013 Budget are not less than that required by statute and State agreement.

\* This Emergency will be funded by a bond ordinance.

**Note 8: SCHOOL TAXES**

Local District School Tax in the amount of \$134,162,908 has been raised for the 2012 calendar year and \$134,020,482 remitted to the school district leaving a \$142,426 balance payable. Since the school district operates on a July 1 to June 30 fiscal year the school tax levy is determined by taking 50% of the prior year and 50% of the current year requirements, plus the actual amount needed for debt service.

**Note 9: TAXES COLLECTED IN ADVANCE**

Taxes collected in advance are recorded as cash liabilities in the financial statements. Following is a comparison of the liability for the previous two years:

	Balance 12/31/12	Balance 12/31/11
Prepaid Taxes	\$ 1,415,464	\$ 651,362
Cash Liability for Taxes Collected in Advance	<u>\$ 1,415,464</u>	<u>\$ 651,362</u>

## **Note 10: PENSION FUNDS**

### **Description of Plans**

Substantially all of the City's employees are covered by the Public Employees' Retirement System (PERS) and Police and Fireman's Retirement System (PFRS), a cost-sharing multiple-employer defined benefit pension plan which has been established by state statute and is administered by the New Jersey Division of Pension and Benefits (Division). According to the State of New Jersey Administrative Code, all obligations of the System will be assumed by the State of New Jersey should the System terminate. The Division issues a publicly available financial report that includes the financial statements and required supplementary information for the Public Employees Retirement System and Police and Fireman's Retirement System. This report may be obtained by writing to the Division of Pensions and Benefits, PO Box 295, Trenton, New Jersey, 08625 or the report can be accessed on the internet at <http://www.state.nj.us/treasury/pensions/annrpts.shtml>.

### ***Public Employees' Retirement System***

The Public Employees' Retirement System was established in January, 1955 under the provisions of N.J.S.A. 43:15A to provide retirement, death, disability and medical benefits to certain qualified members. The Public Employees' Retirement System is a cost-sharing multiple-employer plan. Membership is mandatory for substantially all full time employees of the State or any county, municipality, school district or public agency provided the employee is not required to be a member of another State-administered retirement system or other state or local jurisdiction.

### ***Police and Fireman's Retirement System***

The contribution policy for the PFRS is set by N.J.S.A. 43:16 and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PFRS provides for employee contributions of 8.5% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate.

### **Defined Contribution Retirement Program (DCRP)**

The Defined Contribution Retirement Program (DCRP) was established as of July 1, 2008 under the provisions of Chapter 92, P.L. 2008 and Chapter 103, P.L. 2008 (NJSA43:15C-1 et seq). The DCRP is a cost sharing multiple-employer defined contribution pension fund. The DCRP provides eligible members, and their beneficiaries with a tax-sheltered, defined contribution retirement benefit, along with life insurance and disability coverage. Vesting and benefit provisions are established by NJSA 43:15C-1 et seq.

### Funding Policy

The contribution policy is set by N.J.S.A. 43:15A, Chapter 62, P.L. of 1994, Chapter 115, P.L. of 1997 and N.J.S.A. 18:66, and requires contributions by active members and contributing employers. Plan member and employer contributions may be amended by State of New Jersey legislation. PERS provide for employee contributions of 5.5% of employees' annual compensation, as defined. Employers are required to contribute at an actuarially determined rate in PERS and PFRS. The current PERS rate is 6.9% of covered payroll and for PFRS a rate of 8.5% of covered payroll. The City's contributions to PERS for the years ending December 31, 2012, 2011 and 2010 were \$3,986,983, \$3,708,679 and \$2,863,797 respectively, equal to the required contributions for each year. The City's contributions to PFRS for the years ending December 31, 2012, 2011 and 2010 were \$14,818,152, \$16,213,750 and \$12,234,755 respectively, equal to the required contributions for each year. For the year 2009 the City elected to defer 50% of the PERS and PFRS payments. The City will be required to budget the deferred amount starting in 2012 for 5 years, in addition to 8.5% interest.

### Significant Legislation

Chapter 78, P.L. 2011, effective June 28, 2011 made various changes to the manner in which the Public Employees' Retirement System (PERS) and the Police and Firemen's Retirement System (PFRS) operate and to the benefit provisions of those systems.

Chapter 78's provisions impacting employee pension and health benefits include:

- New members of the PERS hired on or after June 28, 2011 (Tier 5 members) will need 30 years of creditable service and age 65 for receipt of the early retirement benefit without a reduction of  $\frac{1}{4}$  of 1% for each month that the member is under age 65.
- The eligibility age to qualify for a service retirement in the PERS is increased from age 63 to 65 for Tier 5 members.
- The annual benefit under special retirement for new PFRS members enrolled after June 28, 2011 (Tier 3 members), will be 60% instead of 65% of the member's final compensation plus 1% for each year of creditable service over 25 years but not to exceed 30 years.
- Increases in active member contribution rates. PERS active member rates increase from 5.5% of annual compensation to 6.5% plus an additional 1% phased-in over 7 years; PFRS active member rate increase from 8.5% to 10%. For fiscal year 2012, the member contribution rates increased in October 2011. The phase-in of the additional incremental member contribution rates for PES members will take place in July of each subsequent fiscal year.
- The payment of automatic cost-of-living adjustment (COLA) additional increases to current and future retirees and beneficiaries is suspended until reactivated as permitted by this law.
- New employee contribution requirements towards the cost of employer-provided health benefit coverage. Employees are required to contribute a certain percentage of the cost of coverage. The rate of contribution is determined based on the employee's annual salary and



the selected level of coverage. The increased employee contributions will be phased in over a 4-year period for those employed prior to Chapter 78's effective date with a minimum contribution required to be at least 1.5% of salary.

- In addition, this new legislation changes the method for amortizing the pension systems' unfunded accrued liability (from a level percent of pay method to a level dollar of pay).

Chapter 1, P.L. 2010, effective May 21, 2010, made a number of changes to the State-administered retirement systems concerning eligibility, the retirement allowance formula, the definition of compensation, the positions eligible for service credit, the non-forfeitable right to a pension, the prosecutor's part of the PERS, special retirement under the PFRS, and employer contributions to the retirement systems.

Also, Chapter 1, P.L. 2010 changed the membership eligibility criteria for new members of PERS from the amount of annual compensation to the number of hours worked weekly. Also, it returned the benefit multiplier for new members of PERS to 1/60<sup>th</sup> from 1/55<sup>th</sup>, and it provided that new members of PERS have the retirement allowance calculated using the average annual compensation for the last five years of service instead of the last three years of service. New members of PERS will no longer receive pension service credit from more than one employer. Pension service credit will be earned for the highest paid position only. For new members of the PFRS, the law capped the maximum compensation that can be used to calculate a pension from these plans at the annual wage contribution base for social security, and requires the pension to be calculated using a three year average annual compensation instead of the last year's salary. This law also closed the Prosecutors Part of the PERS to new members and repealed the law for new members that provided a non-forfeitable right to receive a pension based on the laws of the retirement system in place at the time 5 years of pension service credit is attained. The law also requires the State to make its full pension contribution, defined a 1/7<sup>th</sup> of the required amount, beginning in fiscal years 2012.

Chapter 3, P.L. 2010, effective May 21, 2010, replaced the accidental and ordinary disability retirement for new members of the PERS with disability insurance coverage similar to that provided by the State to individuals enrolled in the State's Defined Contribution Retirement Program.

Chapter 92, P.L. 2007 implemented certain recommendations contained in the December 1, 2006 report of the Joint Legislative Committee on Public Employee Benefits Reform; established a DCRP for elected and certain appointed officials, effective July 1, 2007; the new pension loan interest rate became 4.69% per year, and an \$8.00 processing fee per loan was charged, effective January 1, 2008. The legislation also removed language from existing law that permits the State Treasurer to reduce employer pension contributions needed to fund the Funds and Systems when excess assets are available.

#### **NOTE 11: PENSION PLAN FOR LIFEGUARDS**

The City of Atlantic City has established a pension plan to provide retirement, disability and survivor pension benefits for the individuals who serve on the City's lifeguard force. An eligible employee becomes a plan member upon employment. Employee contributions shall be withheld

from the member’s salary at the rate of 4.0% and contributed to the plan for his benefit. Retiree benefits are paid out of the current fund and charged to the current operating budget of the City. A plan member may retire with a pension only after his 45<sup>th</sup> birthday and after he has completed 20 years of service, the last 10 must have been completed immediately preceding his application.

Employee contributions to the pension fund were \$87,647 and \$78,698 and benefits paid to retirees was \$884,861 and \$863,984 for the years ended December 31, 2012 and 2011, respectively. The City has not established a separate trust fund for the accumulation of contributions and the payment of retiree benefits.

**Notes 12: POST-RETIREMENT BENEFITS**

The City contributes to the State Health Benefits Program (SHBP), a cost-sharing, multiple-employer defined benefit post-employment healthcare plan administered by the State of New Jersey Division of Pensions and Benefits. SHBP was established in 1961 under N.J.S.A. 52:14-17.25 et seq., to provide health benefits to State employees, retirees, and their dependents. Rules governing the operation and administration of the program are found in Title 17, Chapter 9 of the New Jersey Administrative Code. SHBP provides medical, prescription drugs, mental health/substance abuse, and Medicare Part B reimbursement to retirees and their covered dependents.

The SHBP was extended to employees, retirees and dependents of participating local public employers in 1964. Local employers must adopt a resolution to participate in the SHBP. In 2009, the City authorized participation in the State Health Benefit Program through resolution 307-2009.

Members of the Public Employees’ Retirement System would generally qualify for coverage under the following criteria:

Service Retirement	Eligible at age 60
Early Retirement	Eligible after 25 years of service
Service or Early Retirement Eligibility for State-paid SHBP Benefits	Attainment of 25 years of service
Ordinary Disability Retirement	Eligible after 10 years of service
Accidental Disability	Eligible upon total and permanent disability prior to age 65 as a result of a duty injury

The New Jersey State Health Benefits Plan issues a stand-alone financial report under GASB 43. To view the report, go to <http://www.state.nj.us/treasury/pensions/shbp.htm>.

The City is a member of the SHBP. During 2012, \$24,769,102 was paid by the City for health care, of which \$6,076,592 was paid for retirees. The amount paid during 2011 was \$25,281,579, of which \$5,338,410 was paid for retirees.

#### **Note 14: DEFERRED COMPENSATION**

Employees of the City of Atlantic City may participate in a deferred compensation plan adopted under the provisions of Internal Revenue Code Section 457 (Deferred Compensation Plans With Respect to Service For State and Local Governments).

The deferred compensation plan is available to all employees of the City. Under the plan, employees may elect to defer a portion of their salaries and avoid paying taxes on the deferred portion until the withdrawal date. The deferred compensation amount is not available for withdrawal by employees until termination, retirement, death, or unforeseeable emergency.

The deferred compensation plan is administered by an unrelated financial institution. Under the terms of an IRC Section 457 deferred compensation plan, all deferred compensation and income attributable to the investment of the deferred compensation amounts held by the financial institution, until paid or made available to the employees or beneficiaries, are the property of the employees.

As part of its fiduciary role, the City has an obligation of due care in selecting the third party administrator. In the opinion of the City's legal counsel, the City has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

#### **Note 15: LABOR CONTRACTS**

As of December 31, 2012, the City's employees are organized in the following collective bargaining units. Contracts are continually being negotiated the following table shows their current status.

Contract	Category	Expiration	Covers
ACWCPA	White Collar	12/31/14	All employees except police, fire, craft and blue collar workers. Supervisors are also excluded.
PBA	Police	12/31/12*	All uniformed police, detectives, and other special police units, excluding the chief, deputy chief, inspectors, captains, and all other employees of the City.
IAFF	Firefighters	12/31/14	All uniformed firefighters
IBEW #351	Construction Code Inspectors	12/31/14	All Construction Office inspectors.

GWU # 910	Supervisors	12/31/11*	All supervisors
AFL-CIO #2303	Blue Collar	12/31/14	Blue collar workers
AFL-CIO # 2303C	Beach Patrol	12/31/14	All lifeguards, lieutenants and captains, but excludes chief, assistant chief, area chief, beach surgeon, medical assistant.
SOA	Superior Officers'	12/31/12*	Police captains, excluding chief, deputy chief, inspectors, and all other employees of the City.
Chiefs		12/31/12	Deputy Chief and Chief of Police

\* *Under negotiation*

#### **Note 16: ACCRUED SICK AND VACATION BENEFITS**

The City has permitted full time employees to accrue unused sick and vacation time, which may be taken as time off or paid at a later date at an agreed upon rate. The monetary value of these earned and unused employee benefits has not been accrued by either charges to operations or to budgets of prior years, although in some cases they might be material, since the realization of this liability may be affected by conditions which preclude an employee from receiving full payment of the accrual. At December 31, 2012 and 2011, the City estimates this liability to approximate \$30,751,737 and \$34,773,267, respectively. The policy of not reflecting the accrued benefit is not in agreement with GASB Statement No. 12. Effective January 1, 2002 the State of New Jersey is allowing municipalities to accrue a compensated absences liability. The City has established a reserve that as of December 31, 2012 and 2011 was \$5,212,314 and \$5,094,123, respectively.

#### **Note 17: ECONOMIC DEPENDENCY**

The City of Atlantic City is economically dependent on one industry as a major source of tax revenue for the City. The City receives approximately 65% of the Tax Levy from the Casino industry.

#### **Note 19: COMMITMENTS AND CONTINGENCIES**

During the normal course of operations, lawsuits are frequently brought against the governmental unit. There are presently numerous suits pending against the City.

The City has not prepared an Incurred But Not Reported ("IBNR") report for the General Liability or Workers Compensation self funded insurance. The General Liability loss reserve calculated by the insurance consultant is approximately \$4,750,000. This Reserve is underfunded without including an IBNR calculation, by over \$2,300,000. Based on verification by the City's Insurance Broker and Solicitor the loss reserves include an adequate basis for estimating potential liabilities to the City at December 31, 2012. Also, estimates of payments to be made in 2013 were included in the City's 2013 budget. Additionally, the City has purchased an excess loss policy for any losses

over \$500,000.

The Worker Compensation report, prepared by the City’s other consultant, indicated current claims of over \$8,600,000. This Reserve is underfunded without including an IBNR calculation, by over \$6,500,000. Based on verification by the City’s Insurance Broker and Solicitor the loss reserves include an adequate basis for estimating potential liabilities to the City at December 31, 2012. Also, estimates of payments to be made in 2013 were included in the City’s 2013 budget.

In prior years the City has settled real estate tax appeals with a number of casinos. The settlements were comprised of cash payments and future tax credits. The tax credits are applied to the quarterly tax bills to a maximum of the total bill. The application of the credit results in a negative adjustment to fund balance. The future tax credits as of December 31, 2012 are as follows:

	<u>Trump Properties</u>		<u>Total</u>
2013	\$ 5,000,000	B	\$ 5,000,000
	<u>\$ 5,000,000</u>		<u>\$ 5,000,000</u>

**Note 20: RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

**Property and Liability Insurance** – The City is self insured for property, liability some employee health plans and workers compensation. The City has commercial coverage for surety bonds and employee health insurance.

The self insurance has an excess policy for covered claims over \$500,000

The following is the activity for the years ended December 31,

	<b>2012</b>		<b>2011</b>	
	<b><u>General Liability</u></b>	<b><u>Worker Compensation</u></b>	<b><u>General Liability</u></b>	<b><u>Worker Compensation</u></b>
Beginning of Year:				
Unencumbered Reserve	\$ 2,481,107	\$ 2,165,733	\$1,510,779	\$ 2,638,412
Encumbrances/Payables	-		447,849	
Other			13,607	151,486
Funded by Budget Appropriation			4,459,500	4,925,000
	<u>2,481,107</u>	<u>2,165,733</u>	<u>6,431,735</u>	<u>7,714,898</u>
Paid			3,950,628	5,549,165
End of Year	<u>\$ 2,481,107</u>	<u>\$ 2,165,733</u>	<u>\$2,481,107</u>	<u>\$ 2,165,733</u>
Analysis of Balance				
Unencumbered Reserve	\$ 2,481,107	\$ 2,165,733	\$2,481,107	\$ 2,165,733
Encumbrances/Payables	<u>\$ 2,481,107</u>	<u>\$ 2,165,733</u>	<u>\$2,481,107</u>	<u>\$ 2,165,733</u>

**Note 21: INTERFUND BALANCES**

As of December 31, 2012, the following interfunds were included on the balance sheets of the various funds of the City of Atlantic City:

	Due From	Due To
Current Fund:		
CDBG Trust	\$ 63,895	
Grant Fund	1,348,486	
Trust Fund - Dog Fund	1,253	
Trust Funds - Other		6,349,401
Grant Fund:		
Current Fund		1,348,486
Trust Funds – Other	757	
Trust Fund:		
Current -		
Dog Fund		1,253
Other Trusts	6,349,401	
CDBG		63,895
Grant Fund		757
	\$ <u>7,763,792</u>	<u>7,763,792</u>

The Grant Fund only maintains a bank account for specific grants. All other grant activity is transacted through Current Fund bank accounts. A number of the Trust Funds do not maintain bank accounts. Their activity is transacted through the Current Fund bank accounts. The CDBG interfund is due to a timing issue based on the drawdown of Federal funds.

**Note 22: SUBSEQUENT EVENTS**

The City has evaluated events through June 30, 2013, the date which the financial statements were available to be issued and no additional items were noted for disclosure.

## **SUPPLEMENTARY DATA**



## Independent Auditor's Report

The Honorable Mayor and  
Members of the City Council  
City of Atlantic City, New Jersey

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the regulatory basis financial statements of the various funds and account group as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 30, 2013, which was adverse due to being presented in accordance with the New Jersey regulatory basis of accounting.

### **Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying *schedule of findings and questioned costs*, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying *schedule of findings and questioned costs* to be material weaknesses 12-1 and 12-2.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **City's Responses to Findings**

The City of Atlantic City's response to the findings identified in our audit are described in the accompanying *schedule of findings and questioned costs*. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Kenneth Moore*

Kenneth Moore, CPA RMA #231

*Ford Scott & Associates, LLC*

Ford Scott & Associates, LLC

June 30, 2013

## Independent Auditor's Report

The Honorable Mayor and  
Members of City Council  
City of Atlantic City, New Jersey

### **Report on Compliance for Each Major Federal and State Program**

We have audited the City of Atlantic City's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the New Jersey *OMB State Grant Compliance Supplement* that could have a direct and material effect on each of the City of Atlantic City's major federal and state programs for the year ended December 31, 2012. The City of Atlantic City's major federal and state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

### ***Management's Responsibility***

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal and state programs.

### ***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of City of Atlantic City's major federal and state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and New Jersey OMB 04-04. Those standards, OMB Circular A-133 and NJ OMB 04-04 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal or state program occurred. An audit includes examining, on a test basis, evidence about City of Atlantic City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal and state program. However, our audit does not provide a legal determination of the City of Atlantic City's compliance.

### ***Opinion on Each Major Federal and State Program***

In our opinion, the City of Atlantic City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal and state programs for the year ended December 31, 2012.

### ***Other Matters***

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 12-1 and 12-2. Our opinion on each major federal and state program is not modified with respect to these matters.

The City of Atlantic City's response to the noncompliance findings identified in our audit are described in the accompanying *Findings and Questioned Costs*. The City of Atlantic City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

### **Report on Internal Control Over Compliance**

Management of City of Atlantic City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Atlantic City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal and state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133 and NJ OMB 04-04, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Atlantic City's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal or state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal or state program that is less severe than a material

weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

**Report on Schedules of Expenditures of Federal Awards Required by OMB Circular A-133 and Expenditures of State Financial Assistance Required by NJ OMB 04-04**

We have audited the balance sheets – regulatory basis of the various funds and account group of the City of Atlantic City as of and for the year ended December 31, 2012, and have issued our report thereon dated June 30, 2013, which contained an adverse opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedules of expenditures of federal awards and state financial assistance are presented for purposes of additional analysis as required by OMB Circular A-133 and NJ Circular 04-04 and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole

*Kenneth Moore*

Kenneth Moore, CPA RMA #231

*Ford Scott & Associates, LLC*

Ford Scott & Associates, LLC

June 30, 2013

**CITY OF ATLANTIC CITY**  
**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**  
**YEAR ENDED DECEMBER 31, 2012**

Schedule A

<b>Federal Grantor / Pass-through Grantor Program</b>	<b>CFDA Number</b>	<b>Pass-Through Entity ID#</b>	<b>Grant Period</b>		<b>Program or Award Amount</b>	<b>Unexpended Balance 12/31/11</b>	<b>Receipts or Revenue Recognized</b>	<b>Disbursements/ Expenditures</b>	<b>Adjustments</b>	<b>Unexpended Balance 12/31/12</b>	<b>Accumulated Expenditures</b>
			<b>From</b>	<b>To</b>							
Department of Housing and Urban Development:											
Community Development Block Grant	14.218		1/1/2012	12/31/2012	1,091,899		1,091,899			1,091,899	-
Community Development Block Grant	14.218		1/1/2011	12/31/2011	1,223,970	1,223,970				1,223,970	-
Community Development Block Grant	14.218		1/1/2010	12/31/2010	1,467,622	1,178,065		725,459	(8,965)	443,641	1,023,981
Community Development Block Grant	14.218		1/1/2009	12/31/2009	553,438	61,970		61,970		-	553,438
Community Development Block Grant	14.218				Program Income	81,322	174,279	106,200		149,401	
						2,545,327	1,266,178	893,629	(8,965)	2,908,911	
HOME Investment Partnerships Program	14.239		1/1/2012	12/31/2012	293,844		293,844			293,844	-
HOME Investment Partnerships Program	14.239		1/1/2011	12/31/2011	468,927	385,773		242,174		143,599	325,328
						385,773	293,844	242,174	-	437,443	
Economic Development	14.xxx		1/1/2008	12/31/2008	148,500	118,800				118,800	29,700
Total Department of Housing and Urban Development						3,049,900	1,560,022	1,135,803	(8,965)	3,465,154	
Department of Agriculture											
Passed through New Jersey Department of Health											
Women, Infants and Children	10.557	98-289-WIC-03	10/1/2011	9/30/2012	690,700	536,538	32,400	437,850	(131,088)	-	690,700
Women, Infants and Children	10.557	98-289-WIC-03	10/1/2012	9/30/2013	690,700	-	690,700	117,991		572,709	117,991
						536,538	723,100	555,841	(131,088)	572,709	
Passed through New Jersey Department of Education:											
Summer Food Program	10.559	5120-100-034-5120	1/1/2012	12/31/2012	88,313		88,313	83,317		4,996	83,317
Summer Food Program	10.559	5120-100-034-5120	1/1/2011	12/31/2011	84,423	6,041				6,041	78,382
Summer Food Program	10.559	5120-100-034-5120	1/1/2010	12/31/2010	75,535	5,746				5,746	69,789
						11,787	88,313	83,317	-	16,783	
Total Department of Agriculture						548,325	811,413	639,158	(131,088)	589,492	-
Department of Justice											
Bullet Proof Vests	16.607		1/1/2011	12/31/2011	42,120	42,120		40,405		1,715	40,405
						42,120	-	40,405	-	1,715	
Justice Block Grant	16.738		1/1/2010	12/31/2010		439				439	
Justice Assistance Fund	16.738		1/1/2009	12/31/2009	35,472	861		861		-	35,472
Ed Byrne Memorial Justice Assistance	16.738		1/1/1/09	12/31/2009	191,563	10,238		10,235		3	191,560
Ed Byrne Memorial Justice Assistance	16.738		1/1/1/11	12/31/2011	250,000	250,000		249,965		35	249,965
Ed Byrne Memorial Justice Assistance	16.738		1/1/1/12	12/31/2012	142,416		142,416	122,392		20,024	122,392
JAG Recovery Act	16.738		1/1/1/09	12/31/2009	895,028	206,562		79,550		127,012	768,016
Justice Department Block Grant - Interest Earned	16.xxx		1/1/2000	12/31/2000	16,171	6,604				6,604	
						474,704	142,416	463,003	-	154,117	
Total Department of Justice						516,824	142,416	503,408	-	155,832	

CITY OF ATLANTIC CITY  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
YEAR ENDED DECEMBER 31, 2012

Schedule A

<u>Federal Grantor / Pass-through Grantor Program</u>	<u>CFDA Number</u>	<u>Pass-Through Entity ID#</u>	<u>Grant Period</u>		<u>Program or Award Amount</u>	<u>Unexpended Balance 12/31/11</u>	<u>Receipts or Revenue Recognized</u>	<u>Disbursements/ Expenditures</u>	<u>Adjustments</u>	<u>Unexpended Balance 12/31/12</u>	<u>Accumulated Expenditures</u>
Department of Homeland Security											
SAFER	97.044		1/1/2011	12/31/2011	9,726,403	8,525,183		3,256,055		5,269,128	4,457,275
Homeland Security	97.XXX		1/1/2011	12/31/2011	10,000	10,000				10,000	-
State Domestic Preparedness Equipment Support	97.004		1/1/2009	12/31/2009	1,000,000	136,680				136,680	863,320
Total Department of Homeland Security						8,671,863	-	3,256,055	-	5,415,808	
Department of Energy:											
Energy Efficiency	81.128	4220-100-046-4535	1/1/2010	12/31/2010	219,400	61,516		6,819		54,697	164,703
Total Department of Energy						61,516	-	6,819	-	54,697	
Emergency Management Agency											
Federal Emergency Management Assistance	83.534		1/1/2009	12/31/2009	20,000	121				121	19,879
Federal Emergency Management Assistance	83.534		1/1/2010	12/31/2010	20,000	20,000				20,000	-
Federal Emergency Management Assistance	83.534		1/1/2011	12/31/2011	40,000	40,000				40,000	-
Total Emergency Management Agency						60,121	-	-	-	60,121	
Total Federal Assistance						12,908,549	2,513,851	5,541,243	(140,053)	9,741,104	

**CITY OF ATLANTIC CITY**  
**SCHEDULE OF EXPENDITURES OF STATE AND LOCAL FINANCIAL ASSISTANCE**  
**YEAR ENDED DECEMBER 31, 2012**

Schedule B

State Grantor / Pass-Through Grantor / Program	State Account Number	Grant Period From To		Grant Award	Unexpended Balance 12/31/11	Receipts or Revenue Recognized	Disbursements/ Expenditures	Adjustments	Unexpended Balance 12/31/12	Accumulated Expenditures
Department of Transportation:										
Trust Fund Authority Act of 1984: By Formula	6320-480-601385-61	1/1/2012	12/31/2012		-		(1,803)		1,803	(1,803)
Trust Fund Authority Act of 1984: By Formula	6320-480-601385-61	1/1/2011	12/31/2011	300,000	135,210				135,210	164,790
Trust Fund Authority Act of 1984: By Formula	6320-480-601385-61	1/1/2010	12/31/2010	190,000	190,000		190,000		-	190,000
Total Department of Transportation					325,210	-	188,197	-	137,013	352,987
Department of Law and Public Safety:										
Disposition of DWI Cases	9735-760-098-Y900-001	1/1/2010	12/31/2010	3,067	3,067				3,067	-
Disposition of DWI Cases - 2007	9735-760-098-Y900-001	1/1/2007	12/31/2007	10,430	-				-	10,430
Alcohol Education & Rehab.		1/1/2008	12/31/2008	7,925	6,422				6,422	1,503
Alcohol Education & Rehab.		1/1/2009	12/31/2009	7,750	7,750				7,750	-
Alcohol Education & Rehab.		1/1/2011	12/31/201	539	539				539	-
Body Armor Grant	1020-718-066-1020	1/1/2008	12/31/2008	77,380	2,945		2,283		662	76,718
Body Armor Grant	1020-718-066-1020	1/1/2010	12/31/2010	39,118	39,118		19,789		19,329	19,789
Body Armor Grant	1020-718-066-1020	1/1/2011	12/31/2011	27,852	27,852		26,872		980	26,872
Body Armor Grant	1020-718-066-1020	1/1/2012	12/31/2012	28,696		28,696			28,696	-
Drunk Driving Enforcement		1/1/2008	12/31/2008	35,608	2,002				2,002	33,606
Drunk Driving Enforcement		1/1/2009	12/31/2009	34,015	312				312	33,703
Drunk Driving Enforcement		1/1/2011	12/31/2011	54,572	26,208		26,208		-	54,572
Drunk Driving Enforcement		1/1/2012	12/31/2012	21,460		21,460	15,478		5,982	15,478
Cops in Shops	1400-100-066-1400	1/1/2012	12/31/2012	12,400		12,400	1,522		10,878	1,522
Cops in Shops	1400-100-066-1400	1/1/2011	12/31/2011	11,600	6,184		6,184		-	11,600
Police Certification Trailer		1/1/2006	12/31/2006	1,200	1,200				1,200	-
Domestic Violence Training Program		1/1/2008	12/31/2008	1,250	1,250				1,250	-
Total Department of Law and Public Safety					124,849	62,556	98,336	-	89,069	285,793
Department of Community Affairs:										
Neighborhood Preservation Program	8020-100-022-8020	1/1/1997	12/31/1997	85,000	1,000				1,000	84,000
Neighborhood Preservation Program	8020-100-022-8020	1/1/2002	12/31/2002	100,000	10,305				10,305	89,695
Neighborhood Preservation Program - Bungalow Park	8020-100-022-8020	1/1/1999	12/31/1999	100,000	6,138				6,138	93,862
Neighborhood Preservation Program	8020-100-022-8020	1/1/2003	12/31/2003	75,000	2,057				2,057	72,943
Neighborhood Preservation Program	8020-100-022-8020	1/1/2004	12/31/2004	300,000	12,743				12,743	287,257
Total Department of Community Affairs					32,243	-	-	-	32,243	627,757
Department of Health										
CEHA Grant	K.02.280	1/1/2012	12/31/2012	45,000	-	45,000	7,354		37,646	7,354
CEHA Grant	K.02.280	1/1/2011	12/31/2011	45,000	45,000		45,000		-	45,000
AIDS Testing and Counseling	4245-100-046-4866	1/1/2012	12/31/2012	418,700		418,700	390,750		27,950	390,750
AIDS Testing and Counseling	4245-100-046-4866	1/1/2011	12/31/2011	418,700	222,666		16,054	(206,612)	-	418,700
HINI Vaccinations		1/1/2009	12/31/2009	108,198	18				18	108,180
Total Department of Health					267,684	463,700	459,158	(206,612)	65,614	969,984

See Accompanying Notes to Schedules of Federal and State Financial Assistance



**CITY OF ATLANTIC CITY**  
**SCHEDULE OF EXPENDITURES OF STATE AND LOCAL FINANCIAL ASSISTANCE**  
**YEAR ENDED DECEMBER 31, 2012**

Schedule B

State Grantor / Pass-Through Grantor / Program	State Account Number	Grant Period From To		Grant Award	Unexpended Balance 12/31/11	Receipts or Revenue Recognized	Disbursements/ Expenditures	Adjustments	Unexpended Balance 12/31/12	Accumulated Expenditures
Department of Environmental Protection										
Recycling Tonnage Grant		1/1/2008	12/31/2008	33,322	22,962		12,308		10,654	22,668
Recycling Tonnage Grant		1/1/2009	12/31/2009	118,784	118,784		1,356		117,428	1,356
Recycling Tonnage Grant		1/1/2011	12/31/2011	96,196	96,196		18,546		77,650	18,546
Recycling Tonnage Grant		1/1/2012	12/31/2012	88,076		88,076			88,076	-
Clean Community Program	4900-765-042-4900	1/1/2012	12/31/2012	64,412		64,412	1,500		62,912	1,500
Clean Community Program	4900-765-042-4900	1/1/2011	12/31/2011	65,454	60,795		47,021		13,774	51,680
Clean Community Program	4900-765-042-4900	1/1/2010	12/31/2010	70,574	1,262		600		662	69,912
Clean Community Program	4900-765-042-4900	1/1/2009	12/31/2009	67,949	5,870		1,852		4,018	63,931
Green Communities		1/1/2011	12/31/2011	3,000	3,000		3,000		-	3,000
Hazardous Site - 97 - NADA		1/1/2008	12/31/2008	8,720	4,949				4,949	3,771
Brownsfields Assessment	BF-97250207-0	1/1/2007	12/31/2007	200,000	30,406		30,038		368	199,632
Total Department of Environmental Protection					344,224	152,488	116,221	-	380,491	435,996
Other State Agencies										
Enhanced 9-1-1 Grant	07-E-01-122	7/17/2007	6/30/2008	554,377	5,960				5,960	548,417
Total Other State Agencies					5,960	-	-	-	5,960	548,417
Total State Assistance					1,100,170	678,744	861,912	(206,612)	710,390	3,220,934
Local Assistance										
County of Atlantic										
Open Space - Bungalow Park		1/1/2006	12/31/2006	360,350	4,400			355,950	360,350	-
Open Space		1/1/2008	12/31/2008	900,000	900,000				900,000	-
Meals on Wheels		1/1/2010	12/31/2010	3,998	3,998				3,998	-
Meals on Wheels		1/1/2011	12/31/2011	12,090	12,090				12,090	-
Homeland Security - Inauguration		1/1/2009	12/31/2009	27,916	20,430				20,430	7,486
CRDA - Demolition within Tourism District				1,500,000	-	1,500,000			1,500,000	1,500,000
CRDA - Basketball Tournament				166,000		166,000			166,000	166,000
CRDA - Demolition				1,300,000		1,300,000	30,000		1,270,000	1,300,000
CRDA - Community Development Program				41,331		41,331	41,331		-	41,331
CRDA - Garden Pier				1,800,000		1,800,000	1,759,436		40,564	1,800,000
CRDA - Boardwalk Street Lights				2,543,000		2,543,000			2,543,000	2,543,000
CRDA - Law Enforcement Technology				3,500,000		3,500,000	17,000		3,483,000	3,500,000
CRDA - Summer Concerts				24,313		24,313	24,313		-	24,313
CRDA - All Wars Memorial Building				3,359,598	3,359,598				3,359,598	-
CRDA - Street Lighting				3,225,000	725,000				725,000	2,500,000
CRDA - Demolition				2,500,000	668,682		290,813		377,869	2,122,131
Municipal Alliance Drug and Alcoholism	4250-760-050000-63-262	1/1/2008	12/31/2008		150				150	
Municipal Alliance Drug and Alcoholism	4250-760-050000-63-262	1/1/2011	12/31/2011	35,868	23		(1,097)		1,120	34,748
Municipal Alliance Drug and Alcoholism	4250-760-050000-63-262	1/1/2012	12/31/2012	35,868		35,868	35,867		1	35,867
Total Local Assistance					5,694,371	10,910,512	2,197,663	355,950	14,763,170	15,574,876
Total State and Local Assistance					6,794,541	11,589,256	3,059,575	149,338	15,473,560	18,795,810
Total Federal and State and Local Assistance					19,703,090	14,103,107	8,600,818	9,285	25,214,664	18,795,810

See Accompanying Notes to Schedules of Federal and State Financial Assistance

**Note 1: BASIS OF PRESENTATION**

The accompanying schedule of federal and state awards includes the federal and state grant activity of the City of Atlantic City, State of New Jersey and is presented on the basis of accounting prescribed by the Division of Local Government Services, Department of Community Affairs, State of New Jersey, which is a comprehensive basis of accounting other than generally accepted accounting principles. Encumbrances are considered in determining single audit threshold on major programs.

**Note 2: RELATIONSHIP TO GENERAL PURPOSE FINANCIAL STATEMENTS**

Amounts reported in the accompanying schedule do not agree with amounts reported in the City's financial statements. Receipts from Federal and State grants are realized as revenue when anticipated in the City's budget. Expenditures are recognized when they become payable. Following is a reconciliation of expenditures:

Expenditures per Schedule of Federal and State Awards	\$ 8,600,818
Less: Community Development Block Grant	(1,135,803)
Plus: Prior year encumbrances	4,004,086
Less: Current year encumbrances	(1,462,646)
Expenditures reported on Schedule A-14	<u><u>\$ 10,006,455</u></u>

**APPENDIX C**  
**FORM OF OPINION OF**  
**BOND COUNSEL**

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## ATTORNEYS AT LAW

90 Woodbridge Center Drive  
Suite 900 Box 10  
Woodbridge, NJ 07095-0958  
732.636.8000  
Fax 732.855.6117

Meridian Center I  
Two Industrial Way West  
Eatontown, NJ 07724-2265  
732.542.4500  
Fax 732.493.8387

110 William Street  
26th Floor  
New York, NY 10038-3927  
212.267.3091  
Fax 212.267.3828

Two Penn Center Plaza  
Suite 910  
Philadelphia, PA 19102  
215.940.4000  
Fax 215.636.3999

www.wilentz.com

DAVID T. WILENTZ (1919-1988)  
G. GEORGE GOLDMAN (1922-1959)  
HENRY M. SPITZER (1928-1988)  
WARREN W. WILENTZ (1949-2010)

FREDERICK K. BECKER<sup>2</sup>  
RICHARD F. LERT<sup>2</sup>  
JOHN A. HOFFMAN  
STEPHEN E. BARCAN  
VINCENT P. MALTESE  
DAVID M. WILDSTEIN  
GORDON J. GOLUM  
MARVIN J. BRAUTH<sup>2</sup>  
STUART A. HOBERMAN<sup>2,3</sup>  
STEPHEN A. SPITZER  
ANNE S. BABINEAU<sup>2</sup>  
CHRISTINE D. PETRUZZELL  
BRIAN J. MOLLOY  
RANDALL J. RICHARDS  
JOSEPH J. JANKOWSKI  
DAVID S. GORDON  
FREDERICK J. DENNEHY  
ROY H. TANZMAN<sup>2</sup>  
STEVEN J. TRIPP  
JAY J. ZIZNEWSKI  
JAMES E. TRABILSY  
MAUREEN S. BINETTI<sup>1</sup>  
ANTHONY J. PANNELLA, JR.  
MICHAEL J. BARRETT<sup>1</sup>  
MICHAEL F. SCHAFF<sup>2,7</sup>  
ANGELO JOHN CIFALDI  
KEVIN M. BERRY<sup>2</sup>  
JOHN T. KELLY<sup>2</sup>  
C. KENNETH SHANK<sup>2</sup>  
EDWIN LEAVITT-GRUBERGER<sup>2</sup>  
BARRY A. COOKE  
JON G. KUPILIK

PETER R. HERMAN<sup>2</sup>  
EDWARD T. KOLE  
HESSER G. MCBRIDE, JR.  
ERIC JOHN MARCY  
ROBERT C. KAUTZ<sup>2,8</sup>  
VIOLA S. LORDI<sup>2</sup>  
LYNNE M. KIZIS  
KEVIN P. RODDY<sup>2,8,9</sup>  
DANIEL S. BERNHEIM 3d<sup>1,3</sup>  
DAVID H. STEIN  
DOUGLAS WATSON LUBIC<sup>2</sup>  
DOMINICK J. BRATTI  
LISA A. GORAB<sup>2</sup>  
LAWRENCE F. JACOBS<sup>2</sup>  
BETH HINSDALE-PILLER  
FRED HOPKE<sup>2</sup>  
DONALD E. TAYLOR<sup>2</sup>  
BRETT R. HARRIS<sup>2</sup>  
JEFFREY W. CAPPOLA  
ALFRED M. ANTHONY<sup>2</sup>  
DARREN M. GELBER<sup>2,3</sup>  
WILLIAM J. LINTON  
DONNA M. JENNINGS  
GIOVANNI ANZALONE  
PETER A. GREENBAUM<sup>2</sup>  
WILLARD C. SHIH<sup>2</sup>  
LAWRENCE C. WEINER<sup>2</sup>  
LAURIE E. MEYERS<sup>2,4</sup>  
DAVID P. PEPE  
JOHN E. HOGAN<sup>2</sup>  
EVERETT M. JOHNSON<sup>2</sup>  
DANIEL R. LAPINSKI<sup>2,3</sup>  
TODD E. LEHDER<sup>2,7</sup>  
PHILIP A. TORTORETTI<sup>11,12</sup>  
KELLY A. ERHARDT-WOJIE<sup>3</sup>  
ALEX LYUBARSKY<sup>2</sup>  
ELLEN TORREGROSSA-O'CONNOR

## OF COUNSEL

ALAN B. HANDLER<sup>5</sup>  
FRANCIS V. BONELLO  
BRUCE M. KLEINMAN<sup>2,5</sup>

## COUNSEL

RUTH D. MARCUS<sup>1,2</sup>  
RICHARD J. BYRNES  
JAMES E. TONREY, JR.<sup>2</sup>  
DEIRDRE WOLFE PACHECO<sup>2</sup>  
ROBERTO BENITES  
JONATHAN J. BART<sup>1,2,3</sup>  
YVONNE MARCUSE  
ABBY RESNICK-PARIGIAN<sup>2,3</sup>  
BARBARA J. KOONZ<sup>2,10</sup>  
FRANCINE E. TAJFEL<sup>2</sup>  
EDWARD J. ALBOWICZ<sup>2</sup>  
ELIZABETH C. DELL<sup>2</sup>  
ROBERT L. SELVERS<sup>2</sup>  
MICHAEL J. WEISLITZ  
JOHN P. MURDOCH II

## ASSOCIATES

LINDA LASHBROOK  
ALBERTINA WEBB<sup>2</sup>  
MARY H. SMITH  
STEPHANIE D. GIRONDA  
GREGORY D. SHAFFER<sup>2,1</sup>  
LOUIS J. SEMINSKI, JR.  
MICHAEL F. FRIED<sup>2</sup>  
MATTHEW SKOLNIK<sup>2</sup>  
ALYSON M. LEONE<sup>2</sup>  
VINCENT CHENG<sup>2</sup>  
JAMIE M. BENNETT<sup>2</sup>  
KEITH L. HOVEY<sup>2,3</sup>  
JOSEPH J. RUSSELL, JR.<sup>2</sup>

EMILY D. VAIL<sup>2,4</sup>  
CHERYL E. CONNORS  
ANTHONY WILKINSON<sup>2</sup>  
JAY B. FELDMAN<sup>2</sup>  
JAMES TRACY  
DANIEL J. KLUSKA  
KARIN K. SAGE  
CORINNE L. MCCANN  
SATISH V. POONDI  
KUSH SHUKLA<sup>2,10</sup>  
RACHEL C. HEINRICH<sup>2</sup>  
ANNEMARIE T. GREENAN<sup>2</sup>  
ERIC M. FINKELSTEIN<sup>2</sup>  
NANOR L. TERJANIAN<sup>2</sup>  
ANDREW GROUS<sup>2,3</sup>  
MEGAN E. BEDELL<sup>2</sup>  
BRIDGET V. KANE  
RISA M. CHALFIN  
EMILY M. PHELAN

<sup>1</sup> Certified Civil Trial Attorney  
<sup>2</sup> Certified Criminal Trial Attorney  
<sup>3</sup> Certified Workers Comp. Attorney  
<sup>4</sup> Not admitted NJ  
<sup>5</sup> Admitted NY  
<sup>6</sup> Admitted CT  
<sup>7</sup> Admitted DC  
<sup>8</sup> Admitted MA  
<sup>9</sup> Admitted MD  
<sup>10</sup> Admitted VA  
<sup>11</sup> Admitted CA  
<sup>12</sup> Admitted FL  
<sup>13</sup> Admitted PR  
<sup>14</sup> Admitted VI

December \_\_\_, 2013

Mayor and Council of the  
City of Atlantic City  
Atlantic City, New Jersey

Ladies and Gentlemen:

We have served as Bond Counsel in connection with the authorization, issuance, sale and delivery of the \$13,901,000 aggregate principal amount of General Obligation Bonds, Series 2013 (the "General Obligation Bonds") and the \$48,976,000 aggregate principal amount of Tax Appeal Refunding Bonds, Series 2013 (the "Tax Appeal Refunding Bonds" and together with the General Obligation Bonds, the "Bonds") of the City of Atlantic City, in the County of Atlantic (the "City"), a body politic and corporate of the State of New Jersey (the "State").

The General Obligation Bonds are authorized by and are issued pursuant to: (i) the laws of the State of New Jersey, including the provisions of the Local Bond Law, N.J.S.A. 40A:2-1 et seq., as amended and supplemented (the "Local Bond Law"); (ii) a bond ordinance of the City finally adopted on September 25, 2013; and (iii) a resolution duly adopted by the City Council of the City on November 13, 2013 (the "Bond Resolution").

The General Obligation Bonds are being issued to (i) fund various capital improvements; and (ii) pay the costs of issuance with respect to the General Obligation Bonds.

The Tax Appeal Refunding Bonds are authorized by and are issued pursuant to: (i) the laws of the State of New Jersey, including the provisions of the Local Bond Law; (ii) a refunding bond ordinance of the City finally adopted on October 9, 2013; and (iii) the Bond Resolution. The Local Finance Board, in the Division of Local Government Services, New Jersey Department of Community Affairs (the "Local Finance Board") issued positive findings with respect to the issuance of not to exceed \$55,000,000 of Tax Appeal Refunding Bonds by virtue of a resolution adopted on October 9, 2013.

The Tax Appeal Refunding Bonds are being issued to (i) pay amounts owed to certain taxpayers (primarily to casinos) in the City for tax liabilities resulting from court approved settlements and judgments of property tax appeals; and (ii) pay the costs of issuance with the respect to the Tax Appeal Refunding Bonds.

The tax appeal liabilities are an extraordinary expense, the amount of which was not foreseen at the time of the City Council's adoption of the City's 2013 fiscal year budget; and which expense was required to meet the pressing need for public expenditures to protect and promote the public health, safety, morals and welfare of the citizens of the City.

The Bonds are issued in fully registered form, without coupons, initially registered in the name of and held by Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), an automated depository for securities and clearing house for securities transactions. One certificate shall be issued for the aggregate principal amount of Bonds of each series maturing in each year. Purchases of the Bonds will be made in book-entry only form, without certificates, in the principal amount of \$5,000 or any integral multiple thereof (with a minimum purchase of \$5,000), except that any Bonds in excess of the largest principal amount equaling a multiple of \$5,000 shall be in denominations of \$1,000 or any integral multiple thereof. So long as DTC or its nominee is the registered owner of the Bonds, payments of the principal of and interest on the Bonds will be made by the City as Paying Agent (or a Paying Agent duly appointed by the City) directly to Cede & Co., as nominee for DTC. Disbursal of such payments to DTC participants is the responsibility of DTC and disbursal of such payments to the beneficial owners of the Bonds is the responsibility of DTC participants.

The General Obligation Bonds are dated and shall bear interest from their date of delivery, which interest shall be payable semiannually on the first day of June and December (each an "Interest Payment Date") in each year until maturity or prior redemption, commencing June 1, 2014. The General Obligation Bonds shall mature on December 1 in each of the years and in the principal amounts as follows:

<u>Year</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Year</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2014	\$615,000	3.00%	2022	\$ 950,000	5.00%
2015	615,000	4.00	2023	990,000	5.00
2016	790,000	5.00	2024	1,030,000	5.00
2017	816,000	5.00	2025	1,070,000	5.00
2018	835,000	5.00	2026	1,115,000	5.00
2019	860,000	5.00	2027	1,175,000	5.00
2020	890,000	5.00	2028	1,230,000	5.00
2021	920,000	5.00			

The Tax Appeal Refunding Bonds are dated and shall bear interest from their date of delivery, which interest shall be payable semiannually on the Interest Payment Dates in each year until maturity or prior redemption, commencing June 1, 2014. The Tax Appeal Refunding Bonds shall mature on December 1 in each of the years and in the principal amounts as follows:

<u>Year</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>	<u>Year</u> <u>(December 1)</u>	<u>Principal</u> <u>Amount</u>	<u>Interest</u> <u>Rate</u>
2017	\$ 756,000	5.00%	2026	\$890,000	5.00%
2018	755,000	5.00	2027	890,000	5.00
2019	7,125,000	5.00	2028	890,000	5.00
2020	6,680,000	5.00	2029	890,000	5.00
2021	6,235,000	5.00	2030	890,000	5.00
2022	6,055,000	5.00	2031	890,000	5.00
2023	5,790,000	5.00	2032	890,000	5.00
2024	4,145,000	5.00	2033	890,000	5.00
2025	4,315,000	5.00			

The Bonds are subject to redemption prior to their stated maturities in accordance with their terms.

We have examined such matters of law, certified copies of the proceedings, including all authorization proceedings for the Bonds, and other documents and proofs relative to the issuance and sale of the Bonds as we have deemed necessary or appropriate for the purposes of the opinion rendered below. In such examination, we have assumed the genuineness of all signatures, the authenticity of all documents submitted to us as originals and the conformity to the original documents of all documents submitted to us as copies. As to any facts material to our opinion we have, when relevant facts were not independently established, relied upon the aforesaid instruments, certificates and documents.

We are of the opinion that (i) such proceedings and proofs show lawful authority for the issuance and sale of the Bonds pursuant to the New Jersey Statutes, (ii) the Bonds have been duly authorized, executed and delivered and constitute valid and legally binding obligations of the City enforceable in accordance with their terms, (iii) the City has pledged its full faith and credit for the payment of the principal of and interest on the Bonds, and, unless paid from other sources, all the taxable property within the City is subject to the levy of *ad valorem* taxes, without limitation as to rate or amount, for the payment of principal of and interest on the Bonds, (iv) the tax liabilities are extraordinary non-recurring legal judgments and expenses, and (v) payment of the tax liabilities is required to meet the pressing need for public expenditures to protect and promote the public health, safety, morals and welfare of the citizens of the City.

The Internal Revenue Code of 1986, as amended (the "Code"), sets forth certain requirements which must be met subsequent to the issuance and delivery of the Bonds for the interest thereon to be and remain excludable from gross income for Federal income tax purposes. Noncompliance with such requirements could cause interest on the Bonds to be included in gross income for Federal income tax purposes retroactive to the date of the issuance of the Bonds. The City has covenanted to maintain the exclusion of interest on the Bonds from gross income for Federal income tax purposes pursuant to Section 103(a) of the Code.

In our opinion, under existing law, and assuming continuing compliance by the City with the aforementioned covenant, under existing statutes, regulations, rulings and court decisions, interest on the Bonds is not includable for Federal income tax purposes in the gross income of the owners of the Bonds pursuant to Section 103 of the Code. The Bonds are not “specified private activity bonds” within the meaning of Section 57(a)(5) of the Code and, therefore, the interest on the Bonds will not be treated as a preference item for purposes of computing the Federal alternative minimum tax imposed on individuals by Section 55 of the Code. However, a portion of the interest on the Bonds owned by corporations may be subject to the Federal alternative minimum tax, which is based in part on adjusted current earnings.

We are also of the opinion that, under existing laws of the State of New Jersey, interest on the Bonds and any gain on the sale thereof is not includable in gross income under the New Jersey Gross Income Tax Act, 1976 N.J. Laws c. 47, as amended and supplemented.

Except as stated in the preceding paragraphs, we express no opinion as to any Federal, state or local tax consequences of the ownership or disposition of the Bonds. Furthermore, we express no opinion as to any Federal, state or local tax law consequences with respect to the Bonds, or the interest thereon, if any action is taken with respect to the Bonds or the proceeds thereof upon the advice or approval of other bond counsel.

This opinion is qualified to the extent that the enforceability of the rights or remedies with respect to the Bonds may be limited by bankruptcy, insolvency, debt adjustment, moratorium, reorganization or other similar laws affecting creditors’ rights or remedies heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

We have examined one of the Bonds of each series, as executed by the City, and, in our opinion, the form of the Bonds of each series and their execution are regular and proper.

Very truly yours,

WILENTZ, GOLDMAN & SPITZER, P.A.