



**New Jersey State Legislature
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Office of the State Auditor**

Casino Control Fund

Fiscal Year 2009

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New Jersey State Legislature

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Governor of New Jersey

The Honorable Stephen M. Sweeney
President of the Senate

The Honorable Sheila Y. Oliver
Speaker of the General Assembly

Mr. Albert Porroni
Executive Director
Office of Legislative Services

Enclosed is our report on the audit of the Casino Control Fund for Fiscal Year 2009. If you would like a personal briefing, please call me at (609) 292-3700.

Thomas R. Meseroll
Assistant State Auditor
July 2, 2010

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INDEPENDENT AUDITOR'S REPORT

We have audited the financial statements of the State of New Jersey Casino Control Fund as listed in the accompanying table of contents as of and for the years ended June 30, 2009 and 2008. These financial statements are the responsibility of management. 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 and the standards applicable to financial audits contained in the *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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the Casino Control Fund and do not purport to, and do not, present fairly the financial position of the State of New Jersey as of June 30, 2009 and 2008, the changes in its financial position, or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Casino Control Fund as of June 30, 2009 and 2008 and the changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2010 on our consideration of the Casino Control Fund management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual - Budgetary Basis and reconciliation are not required as part of the financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consist principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Casino Control Fund financial statements. The expenditure detail schedule is presented for the purpose of additional analysis and is not a required part of the Casino Control Fund financial statements. The expenditure detail schedule has been subjected to the auditing procedures applied in the audit of the Casino Control Fund financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.



Thomas R. Meseroll
Assistant State Auditor
June 30, 2010

**STATE OF NEW JERSEY
CASINO CONTROL FUND
BALANCE SHEET
JUNE 30, 2009 AND 2008**

	2009	2008
<u>ASSETS</u>		
Cash	\$ 51,000	\$ 51,000
Accounts Receivable	10,114,651	11,818,889
Less: Allowance for Doubtful Accounts	100,801	100,743
Net Accounts Receivable	10,013,850	11,718,146
Due from General Fund	8,308,340	1,888,499
Total Assets	\$ 18,373,190	\$ 13,657,645
<u>LIABILITIES AND FUND BALANCES</u>		
Liabilities		
Accounts Payable	\$ 4,936,101	\$ 4,994,102
Deferred Revenue	11,539,000	3,222,500
Total Liabilities	16,475,101	8,216,602
Fund Balances		
Reserved for:		
Encumbrances	987,197	1,789,974
Unreserved:		
Designated for Continuing Appropriations	910,892	643,592
Undesignated	---	3,007,477
Total Fund Balances	1,898,089	5,441,043
Total Liabilities and Fund Balances	\$ 18,373,190	\$ 13,657,645

The accompanying notes are an integral part of the financial statements

**STATE OF NEW JERSEY
CASINO CONTROL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE FISCAL YEARS ENDED JUNE 30, 2009 AND 2008**

	2009	2008
<u>REVENUES</u>		
Casinos		
Licenses - Casino	\$ 45,846,539	\$ 47,910,335
- Slot Machine	17,540,250	18,294,748
- Alcoholic Beverage	130,802	112,612
Assessments	---	---
	63,517,591	66,317,695
Credits - Prior Year Fund Balance	(3,572,819)	---
Total from Casinos	59,944,772	66,317,695
 Other Sources		
Licenses - Casino Employees	1,765,157	3,063,148
- Casino Service Industry	529,337	808,596
Equipment Prototype Testing	2,014,853	2,240,544
Other Revenues	56,169	80,573
Total from Other Sources	4,365,516	6,192,861
 Investment Earnings	157,396	462,419
 Total Revenues	64,467,684	72,972,975
<u>EXPENDITURES</u>		
Public Safety and Criminal Justice (Division of Gaming Enforcement)	40,570,457	42,884,896
Government Direction, Management and Control (Casino Control Commission)	27,440,181	28,219,855
Total Expenditures	68,010,638	71,104,751
 Net Increase (Decrease) in Fund Balance for the Year	(3,542,954)	1,868,224
Fund Balance - Beginning	5,441,043	3,572,819
Fund Balance - Ending	\$ 1,898,089	\$ 5,441,043

The accompanying notes are an integral part of the financial statements

**STATE OF NEW JERSEY
CASINO CONTROL FUND
NOTES TO THE FINANCIAL STATEMENTS**

NOTE 1 - Significant Accounting Policies

A. Basis of Presentation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB).

B. Financial Reporting Entity

The Casino Control Commission and the Division of Gaming Enforcement are agencies of the State of New Jersey. N.J.S.A. 5:12-143 established the Casino Control Fund to account for the financial transactions of these agencies.

C. Fund Level Financial Statements

The State of New Jersey issues government-wide financial statements that report information for all of the non-fiduciary activities of the State including that of the Casino Control Fund. Due to the legislative mandate that the Casino Control Fund be financed exclusively by licensing fees assessed upon the casino industry, a Fund Level Financial Statement is prepared for the Casino Control Fund.

A Fund Level Financial Statement includes a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances.

D. Measurement Focus and Basis of Accounting

The Casino Control Fund statements utilize the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets and liabilities are included on the balance sheet. The operating statement for the fund presents increases and decreases in total fund balances.

In accordance with the modified accrual basis, revenues are recognized when they become susceptible to accrual; that is, when they become both measurable and available to finance expenditures of the fiscal period. Available means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Material revenues susceptible to accrual would include casino license fees.

Expenditures are recognized when the related fund liabilities are incurred. Disbursements for prepaid expenses, inventory items, and fixed assets are recorded as expenditures when incurred.

E. Fund Accounting

The financial activities of the State are recorded in individual funds, each of which is deemed to be a separate accounting entity. The State uses fund accounting to report on its financial position and results of operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which represents the fund's assets, liabilities, equity, revenues, and expenditures or expenses. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds.

Governmental Fund Type - Special Revenue Fund

The Casino Control Fund is a governmental fund type - Special Revenue Fund. Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, private purpose trusts, or for major capital projects) that are legally restricted to expenditure for specified purposes.

The Casino Control Fund (N.J.S.A. 5:12-143) accounts for fees from the issuance and renewal of casino licenses and other license fees. Appropriations are made from the Casino Control Fund to finance the operations of the Casino Control Commission and the Division of Gaming Enforcement.

F. Budgetary Process

An annual budget is adopted for the Casino Control Fund. The Legislature enacts the budget through passage of a specific appropriation, the sum of which may not exceed estimated revenues. The annual appropriations act for fiscal year 2009 authorized \$76,082,951 which consists of an original appropriation of \$75,439,000 and other authorized appropriations of \$643,951. Budgetary control is maintained at the program unit level.

During the year, the spending authority delineated in the appropriations act may be revised for supplemental appropriations approved by both the Legislature and the Governor. For fiscal year 2009, no supplemental appropriations were granted to the Division of Gaming Enforcement or Casino Control Commission.

A Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – Budgetary Basis for the fiscal year ended June 30, 2009 is presented as required supplementary information to these statements. This statement presents a comparison of the final budget adopted for the Casino Control Fund with actual data on a budgetary basis.

The State's budgetary basis of accounting differs from that utilized to present financial statements in conformity with generally accepted accounting principles (GAAP). The main differences between the budgetary basis and the GAAP basis are that under the budgetary basis encumbrances are recognized as expenditures, and the budgetary basis reflects transactions only for the current fiscal year.

There were no expenditures in excess of appropriations in the Casino Control Fund.

G. Fund Balances

The fund balances of the Casino Control Fund consist of the following:

- 1) Reserved for Encumbrances - Used to segregate a portion of fund balance to provide for expenditure upon vendor performance of purchase agreements.
- 2) Unreserved - Designated for Continuing Appropriations - Used to represent that portion of fund balance which has been appropriated by the Legislature.
- 3) Unreserved - Undesignated - Used to represent that portion of fund balance resources available for appropriation.

H. Other

Other significant accounting policies are described in Notes 2 to 10.

NOTE 2 - Cash

Represents a \$500 petty cash fund maintained by each agency and a \$50,000 confidential fund maintained by the Division of Gaming Enforcement.

NOTE 3 - Accounts Receivable

Represents amounts due from casinos and related entities. Net receivables are substantially collected within three months.

Allowance for doubtful accounts represents one hundred percent of non-current receivables.

NOTE 4 - Due From General Fund

Cash transactions of the Casino Control Fund are made by and through the General Fund cash accounts. The balance of cash for this fund held in the General Fund, after receipt and disbursement transactions, is accounted for and reflected in the Due From account on the Balance Sheet.

NOTE 5 - Capital Assets

Capital Assets acquired with fund resources are recorded as expenditures of the fund at the time of acquisition. Assets greater than \$20,000 are also recorded in the State's government-wide financial statements. Capital assets are depreciated using the straight line method. The State assigned estimated useful life for machinery and equipment is 4-30 years. A summary of these capital assets and related accumulated depreciation for the year ended June 30, 2009 follows:

<u>Program</u>	<u>Asset</u>	<u>Balance July 1, 2008</u>	<u>Additions</u>	<u>Retirements</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets June 30, 2009</u>
Government Direction, Management and Control	Machinery & Equipment	\$869,615	---	\$22,500	\$475,261	\$371,854
Public Safety and Criminal Justice	Machinery & Equipment	\$606,811	---	\$207,641	\$328,009	\$71,161

NOTE 6 - Deferred Revenue

Deferred Revenue represents fiscal year 2010 and fiscal year 2009 slot machine license billings collected and recorded in June 2009 and 2008, respectively.

NOTE 7 - Fund Balance

The Casino Control Fund ended with a positive fund balance as of June 30, 2009. This balance includes \$1,868,224 of the fiscal year 2008 fund balance which was credited to casino licensees at the beginning of fiscal year 2010. Pursuant to N.J.A.C. 19:41-9.1(e) the remaining fund balance as of June 30, 2009 totaling \$29,865, will be credited to casino licensees in fiscal year 2011 upon approval by the Commission in proportion to the relative amount of total fees paid by each casino licensee with respect to the fiscal year ended June 30, 2009.

NOTE 8 - Employee Benefit Costs

Fringe benefit costs which include pension, health benefits, payroll taxes, and amounts for unused sick leave are originally paid by the General Fund and are charged to the Casino Control Fund using a composite fringe benefit rate.

Cash payments for accumulated sick leave balances are made to retiring employees upon regular retirement. The payment is based on fifty percent of the employee's sick leave accumulation, at the pay rate in effect at the time of retirement up to a maximum of \$15,000. Employees separating from state service prior to retirement are not entitled to payments for accumulated sick leave balances. Sick leave accumulations may also be used by an employee for a personal illness or injury as a means of continuing regular pay. The liability for accumulated employee sick leave balances as of June 30, 2009 and June 30, 2008 of approximately \$3.9 million and \$4.0 million, respectively, is reflected as a non-current liability on the State's government-wide financial statements and is not accrued in these financial statements.

Employees annually earn 12 to 25 vacation days based on years of service and are permitted to carry over those days earned within a one-year period. The liability for accumulated vacation pay as of June 30, 2009 and June 30, 2008 of approximately \$1.7 million is reflected as a non-current liability on the State's government-wide financial statements and is not accrued in these financial statements.

NOTE 9 - Interest

The General Fund charges interest to the Casino Control Fund when disbursements exceed receipts collected and credits interest to the Casino Control Fund when receipts collected exceed disbursements made. The interest rate used during fiscal year 2009 and fiscal year 2008 was equal to the effective rate of return on investments in the General Fund and varied from 0.75% to 2.43% in fiscal year 2009 and 2.48% to 5.34% in fiscal year 2008. The net effect of these transactions is reflected in the Investment Earnings account on the Statement of Revenues, Expenditures, and Changes in Fund Balances.

NOTE 10-Contingent Liability

As of the issuance date of these statements, the Casino Control Fund is not involved in any legal actions wherein there is potential for unanticipated expenditure. Should any legal actions subsequently materialize, N.J.A.C. 19:41 - 9.1 allows the Casino Control Fund to apportion any uncollected cost among the licensed casino facilities.

REQUIRED SUPPLEMENTARY INFORMATION

**STATE OF NEW JERSEY
CASINO CONTROL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL – BUDGETARY BASIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

	Original Budget	Final Budget	Actual Budgetary Basis	Variance with Final Budget
REVENUES				
Casinos				
Licenses - Casino	\$52,869,330	\$51,062,330	\$42,273,720	\$(8,788,610)
- Slot Machine	17,510,000	17,510,000	17,540,250	30,250
- Alcoholic Beverage	113,000	113,000	130,802	17,802
Assessments	---	---	---	---
Total from Casinos	<u>70,492,330</u>	<u>68,685,330</u>	<u>59,944,772</u>	<u>(8,740,558)</u>
Other Sources				
Licenses - Casino Employees	1,806,380	1,806,380	1,765,157	(41,223)
- Casino Service Industry	693,458	693,458	529,337	(164,121)
Equipment Prototype Testing	2,214,000	2,214,000	2,014,853	(199,147)
Other Revenues	<u>76,783</u>	<u>76,783</u>	<u>56,169</u>	<u>(20,614)</u>
Total from Other Sources	<u>4,790,621</u>	<u>4,790,621</u>	<u>4,365,516</u>	<u>(425,105)</u>
Investment Earnings	<u>500,000</u>	<u>200,000</u>	<u>157,396</u>	<u>(42,604)</u>
Total Revenues	<u>75,782,951</u>	<u>73,675,951</u>	<u>64,467,684</u>	<u>(9,208,267)</u>
EXPENDITURES				
Public Safety and Criminal Justice (Division of Gaming Enforcement)	46,451,873	46,451,873	40,592,453	5,859,420
Government Direction, Management and Control (Casino Control Commission)	<u>29,631,078</u>	<u>29,631,078</u>	<u>27,217,240</u>	<u>2,413,838</u>
Total Expenditures	<u>76,082,951</u>	<u>76,082,951</u>	<u>67,809,693</u>	<u>8,273,258</u>
Net Change in Fund Balance	(300,000)	(2,407,000)	(3,342,009)	(935,009)
Fund Balance - July 1, 2008	<u>300,000</u>	<u>3,007,477</u>	<u>3,007,477</u>	---
Fund Balance - June 30, 2009	<u>\$ ---</u>	<u>\$ 600,477</u>	<u>\$ (334,532)</u>	<u>\$ (935,009)</u>

STATE OF NEW JERSEY
CASINO CONTROL FUND
BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

Budgetary Basis - Net Increase (Decrease) in Fund Balances **\$ (3,342,009)**

Differences - Budget to GAAP

Encumbrances for items ordered but not received are reported in the year the resources are encumbered for budgetary purposes, but in the year the items were received for GAAP purposes. \$ 364,609

Expenditures in prior fiscal year accounts are reported in the year the resources are encumbered for budgetary purposes, but in the year the funds are disbursed for GAAP purposes. (565,554)

Total Differences - Budget to GAAP (200,945)

GAAP Basis - Net Increase (Decrease) in Fund Balances **\$ (3,542,954)**

SUPPLEMENTARY INFORMATION

**STATE OF NEW JERSEY
CASINO CONTROL FUND
EXPENDITURE DETAIL
FISCAL YEARS ENDED JUNE 30, 2009 AND 2008**

	2009		2008	
	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION MANAGEMENT AND CONTROL	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION MANAGEMENT AND CONTROL
EXPENDITURES:				
Salaries	\$ 26,164,678	\$ 17,640,890	\$ 28,299,926	\$ 18,690,381
Payroll Taxes and Employee Benefits	8,994,653	6,303,079	9,201,543	6,146,920
Printing and Office Supplies	134,936	139,562	157,062	128,571
Vehicular Supplies	225,939	---	304,593	---
Travel	94,073	6,729	132,865	17,422
Telephone	303,727	270,335	301,266	240,548
Data Processing	251,564	1,217,244	397,064	883,679
Professional Services	47,092	144,253	59,571	188,758
Other Services Other Than Personal	363,906	157,598	630,552	112,944
Rent-Facilities	2,109,730	1,284,081	2,167,289	1,359,710
Rent-Automobiles and Other	57,739	142,563	55,872	175,546
Indirect Costs	1,464,911	31,622	688,016	131,037
Office Equipment	---	29,694	25,477	29,586
Vehicular Equipment	(12,285)	(6,399)	130,595	30,768
Other Equipment	<u>369,794</u>	<u>78,930</u>	<u>333,205</u>	<u>83,985</u>
Total Expenditures	<u>\$ 40,570,457</u>	<u>\$ 27,440,181</u>	<u>\$ 42,884,896</u>	<u>\$ 28,219,855</u>

Office of the State Auditor
Report on Internal Control over Financial Reporting
and on Compliance and Other Matters Based on
an Audit of the Financial Statements of the
State of New Jersey Casino Control Fund

For the Fiscal Year Ended
June 30, 2009

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Office of Legislative Services

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

We have audited the financial statements of the State of New Jersey Casino Control Fund as of and for the year ended June 30, 2009, and have issued our report thereon dated June 30, 2010. We conducted our audit in accordance with 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Casino Control Fund management's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Casino Control Fund management's internal control over financial reporting. Accordingly, we do

not express an opinion on the effectiveness of the Casino Control Fund management's internal control over financial reporting.

A control deficiency exists when the design or the operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Casino Control Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, 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*.

This report is intended solely for the information and use of management and the legislature, and is not intended to be and should not be used by anyone other than these specified parties.



Thomas R. Meseroll
Assistant State Auditor
June 30, 2010