



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

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**Casino Control Fund**

Fiscal Year 2006

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**Richard L. Fair  
State Auditor**

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*New Jersey State Legislature*

OFFICE OF LEGISLATIVE SERVICES

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The Honorable Jon S. Corzine  
Governor of New Jersey

The Honorable Richard J. Codey  
President of the Senate

The Honorable Joseph J. Roberts, Jr.  
Speaker of the General Assembly

Mr. Albert Porroni  
Executive Director  
Office of Legislative Services

Enclosed is our report on the audit of the State of New Jersey Casino Control Fund for the period of July 1, 2005 to June 30, 2006. If you would like a personal briefing, please call me at (609) 292-3700.

A handwritten signature in cursive script, appearing to read "Richard L. Fair".

Richard L. Fair  
State Auditor  
May 10, 2007

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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, 2006 and 2005. 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, 2006 and 2005, 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, 2006 and 2005 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 March 16, 2007 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 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 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 budgetary comparison schedule is not a required part of the basic financial statements but is 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.

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. Such information 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.



Richard L. Fair  
State Auditor  
March 16, 2007

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
BALANCE SHEET  
JUNE 30, 2006 AND 2005**

	2006	2005
<b><u>ASSETS</u></b>		
Cash	\$ 51,000	\$ 51,000
Accounts Receivable	5,174,045	2,029,574
Less: Allowance for Doubtful Accounts	111,319	92,347
Net Accounts Receivable	5,062,726	1,937,227
Due from General Fund	6,591,216	14,113,152
Total Assets	\$11,704,942	\$16,101,379
<b><u>LIABILITIES AND FUND BALANCES</u></b>		
Liabilities		
Accounts Payable	\$ 5,218,521	\$ 5,945,930
Deferred Revenue	6,410,500	6,102,839
Total Liabilities	11,629,021	12,048,769
Fund Balances		
Reserved for:		
Encumbrances	846,272	1,890,601
Unreserved:		
Designated for Continuing Appropriation	875,338	872,961
Undesignated	(1,645,689)	1,289,048
Total Fund Balances	75,921	4,052,610
Total Liabilities and Fund Balances	\$11,704,942	\$ 16,101,379

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, 2006 AND 2005**

	2006	2005
<b><u>REVENUES</u></b>		
Casinos		
Licenses - Casino	\$ 45,372,368	\$ 45,120,161
- Slot Machine	21,089,120	21,214,916
- Alcoholic Beverage	137,620	177,911
Assessments	---	---
	66,599,108	66,512,988
Credits - Prior Year Fund Balance	(4,052,610)	(8,020,970)
Total from Casinos	62,546,498	58,492,018
Other Sources		
Licenses - Casino Employees	2,474,584	2,816,598
- Casino Service Industry	976,788	1,196,079
Equipment Prototype Testing	1,553,399	1,405,055
Other Revenues	98,218	141,328
Total from Other Sources	5,102,989	5,559,060
Investment Earnings	400,263	310,088
Total Revenues	68,049,750	64,361,166
<b><u>EXPENDITURES</u></b>		
Public Safety and Criminal Justice (Division of Gaming Enforcement)	42,800,990	40,345,112
Government Direction, Management and Control (Casino Control Commission)	29,225,449	27,984,414
Total Expenditures	72,026,439	68,329,526
Net Increase (Decrease) in Fund Balance for the Year	(3,976,689)	(3,968,360)
Fund Balance - Beginning	4,052,610	8,020,970
Fund Balance - Ending	\$ 75,921	\$ 4,052,610

The accompanying notes are an integral part of the financial statements

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
NOTES TO 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 to 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 2006 authorized \$70,159,017 which consists of an original appropriation of \$69,285,000 and other authorized appropriations of \$874,017. 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 2006, the Division of Gaming Enforcement was granted an additional appropriation of \$2,000,000.

A Budgetary Comparison Schedule for the fiscal year ended June 30, 2006 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 appropriation.

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) Reserved - Other - Used to segregate a portion of the fund balance to provide for anticipated expenditures in future fiscal years.
- 3) Unreserved - Designated for Continuing Appropriations - Used to represent that portion of fund balance which has been appropriated by the Legislature.
- 4) 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, with one half of the year's depreciation charged in the year of acquisition and in the year of disposal. The State assigned estimated useful life for machinery and equipment is 5-15 years. A summary of these capital assets and related accumulated depreciation for the year ended June 30, 2006 follows:

<u>Program</u>	<u>Asset</u>	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>Accum. Depreciation</u>	<u>Net Capital Assets</u>
Government Direction, Management and Control	Machinery & Equipment	\$359,514	---	---	\$202,494	\$157,020
Public Safety and Criminal Justice	Machinery & Equipment	\$853,592	---	\$75,008	\$565,296	\$213,288

**NOTE 6 - Deferred Revenue**

Deferred Revenue represents fiscal year 2007 and fiscal year 2006 slot machine license billings collected and recorded in June 2006 and 2005, respectively.

**NOTE 7 - Fund Balance**

The positive fund balance as of June 30, 2006 and June 30, 2005 resulted from revenues exceeding expenditures. Pursuant to N.J.A.C. 19:41-9.1(e) the balance at June 30, 2006 will be credited to casino licensees during fiscal year 2007 in proportion to the relative amount of total fees incurred or paid by each casino licensee with respect to the fiscal year ended June 30, 2006. The balance at June 30, 2005 was credited in the same manner to casino licensees during fiscal year 2006.

**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, 2006 and June 30, 2005 of approximately \$3.9 million and \$3.7 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, 2006 and June 30, 2005 of approximately \$1.4 million and \$1.3 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.

**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 2006 and fiscal year 2005 was equal to the effective rate of return on investments in the General Fund and varied from 3.08% to 4.88% in fiscal year 2006 and from 1.24% to 3.02% in fiscal year 2005. 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  
BUDGETARY COMPARISON SCHEDULE  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance with Final Budget</u>
<b>REVENUES</b>				
Casinos				
Licenses - Casino	\$38,084,076	\$44,618,076	\$41,319,758	\$(3,298,318)
- Slot Machine	20,719,000	20,719,000	21,089,120	370,120
- Alcoholic Beverage	160,811	160,811	137,620	(23,191)
Assessments	---	---	---	---
Total from Casinos	<u>58,963,887</u>	<u>65,497,887</u>	<u>62,546,498</u>	<u>(2,951,389)</u>
Other Sources				
Licenses - Casino Employees	2,840,450	2,840,450	2,474,584	(365,866)
- Casino Service Industry	665,500	665,500	976,788	311,288
Equipment Prototype Testing	1,300,000	1,300,000	1,553,399	253,399
Other Revenues	<u>116,180</u>	<u>116,180</u>	<u>98,218</u>	<u>(17,962)</u>
Total from Other Sources	<u>4,922,130</u>	<u>4,922,130</u>	<u>5,102,989</u>	<u>180,859</u>
Investment Earnings	<u>300,000</u>	<u>450,000</u>	<u>400,263</u>	<u>(49,737)</u>
Total Revenues	<u>64,186,017</u>	<u>70,870,017</u>	<u>68,049,750</u>	<u>(2,820,267)</u>
<b>EXPENDITURES</b>				
Public Safety and Criminal Justice (Division of Gaming Enforcement)	40,660,864	42,660,864	42,346,363	314,501
Government Direction, Management and Control (Casino Control Commission)	<u>29,498,153</u>	<u>29,498,153</u>	<u>28,769,521</u>	<u>728,632</u>
Total Expenditures	<u>70,159,017</u>	<u>72,159,017</u>	<u>71,115,884</u>	<u>1,043,133</u>
Net Change in Fund Balance	(5,973,000)	(1,289,000)	(3,066,134)	(3,066,134)
FUND BALANCE - JULY 1, 2005	<u>5,973,000</u>	<u>1,289,048</u>	<u>1,289,048</u>	---
FUND BALANCE - JUNE 30, 2006	<u>\$ ---</u>	<u>\$ 48</u>	<u>\$(1,777,086)</u>	<u>\$(1,777,134)</u>

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
BUDGETARY COMPARISON SCHEDULE  
BUDGET-TO-GAAP RECONCILIATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

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**Budgetary Basis - Net Decrease in Fund Balances** **\$ (3,066,134)**

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. \$ 453,880

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. (1,364,435)

Total Differences - Budget to GAAP (910,556)

**GAAP Basis - Net Decrease In Fund Balances** **\$ (3,976,689)**

# **SUPPLEMENTARY INFORMATION**

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
EXPENDITURE DETAIL  
FISCAL YEARS ENDED JUNE 30, 2006 AND 2005**

	2006		2005	
	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION MANAGEMENT AND CONTROL	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION MANAGEMENT AND CONTROL
EXPENDITURES:				
Salaries	\$ 27,507,300	\$ 19,765,170	\$ 26,382,772	\$ 18,967,842
Payroll Taxes and Employee Benefits	8,611,167	6,420,181	8,052,376	6,252,352
Printing and Office Supplies	151,414	167,498	160,057	206,112
Vehicular Supplies	267,129	---	179,502	---
Travel	243,717	31,426	191,992	36,733
Telephone	322,514	200,479	308,079	192,304
Data Processing	510,253	808,572	437,966	714,773
Professional Services	115,568	104,863	279,545	50,795
Other Services Other Than Personal	647,532	163,357	636,217	142,521
Rent-Facilities	2,052,071	1,302,846	1,999,856	1,113,057
Rent-Automobiles and Other	85,985	158,972	88,732	126,152
Indirect Costs	1,717,823	15,242	957,793	55,773
Office Equipment	14,338	32,402	50,327	22,966
Vehicular Equipment	214,752	---	256,583	52,038
Other Equipment	339,427	54,441	363,315	50,996
<b>TOTAL EXPENDITURES</b>	<b>\$ 42,800,990</b>	<b>\$ 29,225,449</b>	<b>\$ 40,345,112</b>	<b>\$ 27,984,414</b>

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

For the Fiscal Year Ended  
June 30, 2006

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON OUR AUDIT OF  
THE 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, 2006, and have issued our report thereon dated March 16, 2007. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters

in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

#### 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, 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*.

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.



Richard L. Fair  
State Auditor  
March 16, 2007