

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

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**Casino Control Fund**

Fiscal Year 2012

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**Stephen M. Eells  
State Auditor**

LEGISLATIVE SERVICES COMMISSION

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*New Jersey State Legislature*

**OFFICE OF LEGISLATIVE SERVICES**

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The Honorable Chris Christie  
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 2012. If you would like a personal briefing, please call me at (609) 847-3470.

A handwritten signature in dark ink, appearing to read "Stephen M. Eells".

Stephen M. Eells  
State Auditor  
August 30, 2013

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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, 2012 and 2011. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America 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 audits 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 audits provide a reasonable basis for our opinion.

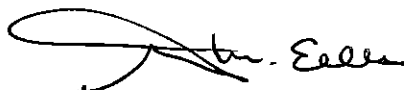
As discussed in Note 1, the financial statements present only the Casino Control Fund and do not purport to, and do not, present fairly the financial position of the State of New Jersey as of June 30, 2012 and 2011, the changes in its financial position, or its cash flows for the years then ended in 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, 2012 and 2011 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 July 26, 2013 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 audits were 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 financial statements. The expenditure detail schedule has been subjected to the auditing procedures applied in the audits 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.



Stephen M. Eells  
State Auditor  
July 26, 2013

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
BALANCE SHEET  
JUNE 30, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b><u>ASSETS</u></b>		
Cash	\$ 50,350	\$ 51,000
Accounts Receivable	8,951,568	10,291,783
Less: Allowance for Doubtful Accounts	<u>(85,129)</u>	<u>(1,228,161)</u>
Net Accounts Receivable	8,866,439	9,063,622
Due from General Fund	<u>2,049,222</u>	<u>6,370,599</u>
Total Assets	<u><u>\$ 10,966,011</u></u>	<u><u>\$ 15,485,221</u></u>
<b><u>LIABILITIES AND FUND BALANCES</u></b>		
Liabilities		
Accounts Payable	\$ 4,062,144	\$ 4,039,150
Deferred Revenue	<u>3,287,568</u>	<u>6,983,500</u>
Total Liabilities	<u>7,349,712</u>	<u>11,022,650</u>
Fund Balances		
Committed	<u>3,616,299</u>	<u>4,462,571</u>
Total Fund Balances	<u>3,616,299</u>	<u>4,462,571</u>
Total Liabilities and Fund Balances	<u><u>\$ 10,966,011</u></u>	<u><u>\$ 15,485,221</u></u>

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, 2012 AND 2011**

	<u>2012</u>	<u>2011</u>
<b><u>REVENUES</u></b>		
Casinos		
Licenses - Casino	\$ 37,269,527	\$ 42,380,528
- Slot Machine	13,889,374	14,263,958
- Alcoholic Beverage	68,761	79,632
Assessments	-	-
	<u>51,227,662</u>	<u>56,724,118</u>
Credits - Prior Year Fund Balance	(4,462,571)	(29,867)
Total from Casinos	<u>46,765,091</u>	<u>56,694,251</u>
Other Sources		
Licenses - Casino Employees	1,164,784	1,109,397
- Casino Service Industry	998,726	813,869
Equipment Prototype Testing	2,409,629	2,144,369
Other Revenues	58,947	25,018
Total from Other Sources	<u>4,632,086</u>	<u>4,092,653</u>
Investment Earnings	<u>10,837</u>	<u>17,702</u>
Total Revenues	<u>51,408,014</u>	<u>60,804,606</u>
<b><u>EXPENDITURES</u></b>		
Public Safety and Criminal Justice (Division of Gaming Enforcement)	44,472,333	39,498,111
Government Direction, Management, and Control (Casino Control Commission)	<u>7,781,953</u>	<u>21,186,308</u>
Total Expenditures	<u>52,254,286</u>	<u>60,684,419</u>
Excess (Deficiency) of Revenues over Expenditures	(846,272)	120,187
<b><u>OTHER FINANCING SOURCES</u></b>		
Transfers from Other Funds	<u>-</u>	<u>-</u>
Total Other Financing Sources	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(846,272)	120,187
Fund Balance - Beginning	<u>4,462,571</u>	<u>4,342,384</u>
Fund Balance - Ending	<u>\$ 3,616,299</u>	<u>\$ 4,462,571</u>

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 2012 authorized \$55,862,000. 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 2012, 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, 2012 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**

In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, the fund balances of a Special Revenue Fund are classified depicting the relative strength of the spending constraints placed on the purposes for which fund resources can be used.

The fund balances of the Casino Control Fund are classified as *Committed*. Fund balances designated as *Committed* can only be used for specific purposes pursuant to constraints imposed by the government itself. N.J.S.A. 5:12-143b mandates that moneys in the Casino Control Fund shall be appropriated exclusively for the operating expenses of the Casino Control Commission and the Division of Gaming Enforcement.

Within the committed fund balances as of June 30, 2012 and June 30, 2011, money has been set aside (encumbered) pending vendor performance in the amounts of \$420,157 and \$280,586 respectively.

#### **H. Other**

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

#### **NOTE 2 - Cash**

Represents a \$100 petty cash fund maintained by the Casino Control Commission, a \$250 petty cash fund maintained by the Division of Gaming Enforcement, 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 General Fund 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, 2012 follows:

<u>Program</u>	<u>Asset</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Retirements</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets June 30, 2012</u>
Government Direction, Management, and Control	Machinery & Equipment	\$894,820	\$117,114	\$82,579	\$679,179	\$250,176
Public Safety and Criminal Justice	Machinery & Equipment	\$419,943	-	-	\$364,810	\$55,133

**NOTE 6 - Deferred Revenue**

Deferred Revenue represents fiscal year 2013 and fiscal year 2012 slot machine license billings collected and recorded in June 2012 and 2011, respectively.

**NOTE 7 - Fund Balance**

The Casino Control Fund ended with a positive fund balance as of June 30, 2012. Pursuant to N.J.A.C. 13:69A-9.1(e) the fund balance as of June 30, 2012 will be credited to casino licensees in fiscal year 2013 upon approval by the Director of the Division of Gaming Enforcement in proportion to the relative amount of total fees paid by each casino licensee with respect to the fiscal year ended June 30, 2012.

The fund balance reflected on the accompanying statements as of June 30, 2011 includes management's recognition of a \$1.1 million increase in the Allowance for Doubtful Accounts and corresponding Bad Debt Expense, resulting from delinquent receivables owed to the fund by Resorts International Hotel, Inc. During fiscal year 2012, the Division of Gaming Enforcement was successful in collecting these doubtful receivables and credited that amount back to the industry.

**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, 2012 and June 30, 2011 of approximately \$2.8 million and \$3.4 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, 2012 and June 30, 2011 of approximately \$1.2 million and \$1.5 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 2012 and fiscal year 2011 was equal to the effective rate of return on investments in the General Fund and varied from 0.14% to 0.19% in fiscal year 2012 and from 0.23% to 0.36% in fiscal year 2011. 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. 13:69A-9.1(d) 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, 2012**

	Original Budget	Final Budget	Actual Budgetary Basis	Variance with Final Budget
<b>REVENUES</b>				
Casinos				
Licenses - Casino	\$ 36,885,439	\$ 36,844,439	32,806,956	\$ (4,037,483)
- Slot Machine	13,533,500	13,533,500	13,889,374	355,874
- Alcoholic Beverage	80,000	80,000	68,761	(11,239)
Assessments	-	-	-	-
Total from Casinos	<u>50,498,939</u>	<u>50,457,939</u>	<u>46,765,091</u>	<u>(3,692,848)</u>
Other Sources				
Licenses - Casino Employees	1,004,960	1,004,960	1,164,784	159,824
- Casino Service Industry	606,228	606,228	998,726	392,498
Equipment Prototype Testing	2,412,617	2,412,617	2,409,629	(2,988)
Other Revenues	26,220	26,220	58,947	32,727
Total from Other Sources	<u>4,050,025</u>	<u>4,050,025</u>	<u>4,632,086</u>	<u>582,061</u>
Investment Earnings	<u>20,000</u>	<u>18,000</u>	<u>10,837</u>	<u>(7,163)</u>
Total Revenues	<u>54,568,964</u>	<u>54,525,964</u>	<u>51,408,014</u>	<u>(3,117,950)</u>
<b>EXPENDITURES</b>				
Public Safety and Criminal Justice (Division of Gaming Enforcement)	47,320,203	47,113,691	44,810,582	2,303,109
Government Direction, Management, and Control (Casino Control Commission)	9,964,839	9,921,351	7,595,166	2,326,185
Total Expenditures	<u>57,285,042</u>	<u>57,035,042</u>	<u>52,405,748</u>	<u>4,629,294</u>
Net Change in Fund Balance	(2,716,078)	(2,509,078)	(997,734)	1,511,344
Fund Balance - July 1, 2011	<u>2,716,078</u>	<u>2,759,000</u>	<u>2,759,000</u>	<u>-</u>
Fund Balance - June 30, 2012	<u>\$ -</u>	<u>\$ 249,922</u>	<u>\$ 1,761,266</u>	<u>\$ 1,511,344</u>

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
BUDGETARY COMPARISON SCHEDULE  
BUDGET-TO-GAAP RECONCILIATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

**Budgetary Basis - Net Increase (Decrease) in Fund Balances** **\$ (997,734)**

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. \$ 395,112

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. (243,650)

Total Differences - Budget to GAAP 151,462

**GAAP Basis - Net Increase (Decrease) In Fund Balances** **\$ (846,272)**



## **SUPPLEMENTARY INFORMATION**

**STATE OF NEW JERSEY  
CASINO CONTROL FUND  
EXPENDITURE DETAIL  
FISCAL YEARS ENDED JUNE 30, 2012 AND 2011**

	2012		2011	
	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION, MANAGEMENT, AND CONTROL	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION, MANAGEMENT, AND CONTROL
EXPENDITURES:				
Salaries	\$ 28,543,369	\$ 3,988,978	\$ 25,786,756	\$ 13,980,338
Payroll Taxes and Employee Benefits	9,723,582	1,505,019	8,379,283	4,727,514
Printing and Office Supplies	192,173	85,876	128,283	114,123
Vehicular Supplies	329,584	-	278,238	-
Travel	112,549	8,660	99,056	7,101
Telephone	299,461	83,387	239,967	199,739
Data Processing	442,437	512,738	277,970	455,799
Professional Services	54,724	23,456	63,325	49,935
Other Services Other Than Personal	394,659	96,846	267,583	97,685
Rent-Facilities	2,428,466	1,385,252	2,281,689	1,385,887
Rent-Automobiles and Other	75,580	84,466	54,101	102,306
Indirect Costs	1,418,672	-	447,603	37,652
Improvements	847	-	-	-
Office Equipment	34,651	(4,413)	702	551
Vehicular Equipment	207,729	(3,285)	923,110	-
Other Equipment	213,850	14,973	270,445	27,678
Total Expenditures	<u>\$ 44,472,333</u>	<u>\$ 7,781,953</u>	<u>\$ 39,498,111</u>	<u>\$ 21,186,308</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, 2012

SENATE

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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, 2012, and have issued our report thereon dated July 26, 2013. 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

Management of the Casino Control Fund is responsible for establishing and maintaining effective 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.

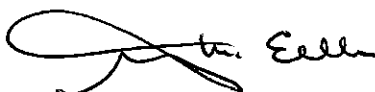
A *deficiency in internal control* exists when the design or the operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination 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.

Our consideration of the internal control over financial reporting 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 financial reporting that might be deficiencies, 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 previously.

#### 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 management's 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.



Stephen M. Eells  
State Auditor  
July 26, 2013