



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

Casino Control Fund

For the Fiscal Years Ended
1999 and 1998

**Richard L. Fair
State Auditor**

Office of the State Auditor

**Casino Control Fund
For the Fiscal Years Ended
June 30, 1999 and 1998**

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New Jersey State Legislature

OFFICE OF LEGISLATIVE SERVICES

OFFICE OF THE STATE AUDITOR

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the State of New Jersey Casino Control Fund as of and for the years ended June 30, 1999 and 1998. 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 generally accepted auditing standards 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 are not intended to present fairly the financial position and results of operations of the State of New Jersey in conformity with generally accepted accounting principles.

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, 1999 and 1998 and the results of its operations for the years then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the Casino Control Fund financial statements taken as a whole. 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 same auditing procedures applied in the examination 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated March 3, 2000 on our consideration of management's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts.



Richard L. Fair
State Auditor
March 3, 2000

CASINO CONTROL FUND

FINANCIAL STATEMENTS

FISCAL YEAR ENDED
JUNE 30, 1999

STATE OF NEW JERSEY
CASINO CONTROL FUND
BALANCE SHEET
JUNE 30, 1999 AND 1998

	<u>1999</u>	<u>EXHIBIT I</u> <u>(In \$000)</u> <u>1998</u>
ASSETS		
Cash	\$ 51.0	\$ 51.0
Accounts Receivable	6,910.4	6,129.9
Less: Allowance for Doubtful Accounts	<u>42.1</u>	<u>33.2</u>
Net Accounts Receivable	6,868.3	6,096.7
Due from General Fund	<u>13,474.1</u>	<u>10,087.0</u>
Total Assets	<u>\$ 20,393.4</u>	<u>\$ 16,234.7</u>
 LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts Payable	\$ 3,614.2	\$ 3,362.5
Deferred Revenue	<u>12,676.5</u>	<u>8,754.6</u>
Total Liabilities	<u>16,290.7</u>	<u>12,117.1</u>
Fund Balances		
Reserved for:		
Encumbrances	2,616.5	2,803.6
Other	1,247.5	1,242.5
Unreserved:		
Designated for Continuing Appropriation	280.2	469.5
Undesignated	<u>(41.5)</u>	<u>(398.0)</u>
Total Fund Balances	<u>4,102.7</u>	<u>4,117.6</u>
Total Liabilities and Fund Balances	<u>\$ 20,393.4</u>	<u>\$ 16,234.7</u>

SEE NOTES TO 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, 1999 AND 1998

	<u>1999</u>	<u>1998</u>
		<u>EXHIBIT II</u> <u>(in \$000)</u>
REVENUES		
Casinos		
Licenses - Casino	\$ 34,253.9	\$ 33,716.6
- Slot Machine	18,162.4	17,657.7
- Alcoholic Beverage	116.2	105.8
Assessments	<u>-</u>	<u>-</u>
	52,532.5	51,480.1
Credits - Prior Year Fund Balance	<u>(4,117.6)</u>	<u>(2,343.3)</u>
Total from Casinos	<u>48,414.9</u>	<u>49,136.8</u>
Other Sources		
Licenses - Casino Employees	3,266.1	1,961.8
- Casino Service Industry	1,294.3	1,337.9
Slot Prototype	622.2	600.5
Other Revenues	<u>93.0</u>	<u>89.7</u>
Total from Other Sources	5,275.6	3,989.9
Investment Earnings	<u>605.5</u>	<u>497.1</u>
Total Revenues	<u>54,296.0</u>	<u>53,623.8</u>
 EXPENDITURES		
Public Safety and Criminal Justice (Division of Gaming Enforcement)	31,848.3	29,554.9
Government Direction, Management and Control (Casino Control Commission)	<u>22,462.6</u>	<u>22,294.6</u>
Total Expenditures	<u>54,310.9</u>	<u>51,849.5</u>
Net Increase (Decrease) in Fund Balance for the Year	(14.9)	1,774.3
Fund Balance - Beginning	<u>4,117.6</u>	<u>2,343.3</u>
Fund Balance - Ending	<u>\$ 4,102.7</u>	<u>\$ 4,117.6</u>

SEE NOTES TO FINANCIAL STATEMENTS

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, 1999

	<u>Budget</u>	<u>Actual</u>	<u>EXHIBIT III-A</u> <u>(in \$000)</u>
			Variance- Favorable <u>(Unfavorable)</u>
REVENUES			
Casinos			
Licenses - Casino	\$ 34,543.5	\$ 34,253.9	\$ (289.6)
- Slot Machine	17,416.5	18,162.4	745.9
- Alcoholic Beverage	96.6	116.2	19.6
Assessments	<u>2,625.5</u>	<u>-</u>	<u>(2,625.5)</u>
	54,682.5	52,532.5	(2,149.6)
Credits - Prior Year Fund Balance	<u>(4,117.6)</u>	<u>(4,117.6)</u>	<u>-</u>
Total from Casinos	<u>50,564.5</u>	<u>48,414.9</u>	<u>(2,149.6)</u>
Other Sources			
Licenses - Casino Employees	3,416.1	3,266.1	(150.0)
- Casino Service Industry	1,131.6	1,294.3	162.7
Slot Prototype	600.0	622.2	22.2
Other Revenues	<u>100.0</u>	<u>93.0</u>	<u>(7.0)</u>
Total from Other Sources	<u>54,247.7</u>	<u>5,275.6</u>	<u>27.9</u>
Investment Earnings	<u>-</u>	<u>605.5</u>	<u>605.5</u>
Total Revenues	<u>55,812.2</u>	<u>54,296.0</u>	<u>(1,516.2)</u>
EXPENDITURES			
Public Safety and Criminal Justice (Division of Gaming Enforcement)	32,366.7	31,496.9	869.8
Government Direction, Management and Control (Casino Control Commission)	<u>22,863.8</u>	<u>22,739.4</u>	<u>124.4</u>
Total Expenditures	<u>55,230.5</u>	<u>54,236.3</u>	<u>994.2</u>
Net Increase (Decrease) in Fund Balance for the Year	<u>\$ 581.7</u>	<u>\$ 59.7</u>	<u>\$ (522.0)</u>

SEE NOTES TO FINANCIAL STATEMENTS

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, 1998

	<u>Budget</u>	<u>Actual</u>	<u>EXHIBIT III-B</u> <u>(in \$000)</u> Variance- Favorable <u>(Unfavorable)</u>
REVENUES			
Casinos			
Licenses - Casino	\$ 33,881.6	\$ 33,716.6	\$ (165.0)
- Slot Machine	17,518.5	17,657.7	139.2
- Alcoholic Beverage	57.4	105.8	48.4
Assessments	<u>-</u>	<u>-</u>	<u>-</u>
	51,457.5	51,480.1	22.6
Credits - Prior Year Fund Balance	<u>(2,343.3)</u>	<u>(2,343.3)</u>	<u>-</u>
Total from Casinos	<u>49,114.2</u>	<u>49,136.8</u>	<u>22.6</u>
Other Sources			
Licenses - Casino Employees	2,558.1	1,961.8	(596.3)
- Casino Service Industry	1,096.7	1,337.9	241.2
Slot Prototype	600.0	600.5	.5
Other Revenues	<u>100.0</u>	<u>89.7</u>	<u>(10.3)</u>
Total from Other Sources	<u>4,354.8</u>	<u>3,989.9</u>	<u>(364.9)</u>
Investment Earnings	<u>-</u>	<u>497.1</u>	<u>497.1</u>
Total Revenues	<u>53,469.0</u>	<u>53,623.8</u>	<u>154.8</u>
EXPENDITURES			
Public Safety and Criminal Justice (Division of Gaming Enforcement)	32,256.5	30,636.1	1,620.4
Government Direction, Management and Control (Casino Control Commission)	<u>22,857.5</u>	<u>22,443.0</u>	<u>414.5</u>
Total Expenditures	<u>55,114.0</u>	<u>53,079.1</u>	<u>2,034.9</u>
Net Increase (Decrease) in Fund Balance for the Year	<u>\$ (1,645.0)</u>	<u>\$ 544.7</u>	<u>\$ 2,189.7</u>

SEE NOTES TO 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. Fund Accounting

The state uses funds, account groups and component units to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts which represent the fund's assets, liabilities, equity, revenues and expenditures or expenses. Funds are classified into three categories: governmental, proprietary and fiduciary. Each category is then divided into separate "Fund Types".

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, expendable 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 fund the operations of the Casino Control Commission and the Division of Gaming Enforcement.

C. Basis of Accounting

The Casino Control Fund is accounted for using the modified accrual basis of accounting. Under this basis of accounting, revenues are recognized in the accounting period in which 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 recorded on the accrual basis when the related liability is incurred. Disbursements for prepaid expenses, inventory items, and fixed assets are recorded as expenditures when incurred.

D. Budgetary Process

An annual budget is adopted for the Casino Control Fund. The Legislature enacts the budget through passage of specific appropriation, the sum of which may not exceed estimated revenues. The annual appropriation act for fiscal years 1999 and 1998 authorized \$54,761,000 for each fiscal year. Budgetary control is maintained at the program unit level.

The accompanying statements of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual – Budgetary Basis present comparisons of the budget established at the start of the fiscal year with actual data on a budgetary basis. The Casino Control Fund's budgeted figures differ from those presented in the State of New Jersey Comprehensive Annual Financial Report (CAFR) due to state budget revisions made throughout the year for supplemental appropriations and changes in appropriated revenues.

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. The following presents a reconciliation of the budgetary basis to the GAAP basis of reporting:

Actual on Budgetary to GAAP Basis June 30, 1999 and 1998 (In \$000)		
	<u>1999</u>	<u>1998</u>
Budgetary basis - net increase (decrease) in fund balances for the fiscal year	\$ 59.7	\$ 544.7
Prior year expenditures and other financing uses	(1,816.3)	(1,389.4)
Encumbrances	<u>1,741.7</u>	<u>2,619.0</u>
GAAP basis - net increase (decrease) in fund balances for the fiscal year	<u>\$ (14.9)</u>	<u>\$ 1,774.3</u>

E. Fixed Assets

Fixed 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 General Fixed Asset Account Group.

F. 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.

G. Other

Other significant accounting policies are described in Notes 2 to 9.

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 industries. 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 - Deferred Revenue

Deferred Revenue represents fiscal year 2000 and fiscal year 1999 slot machine license billings collected and recorded in June 1999 and 1998, respectively.

NOTE 6 - Fund Balance

The positive fund balance as of June 30, 1999 and June 30, 1998 resulted from revenues exceeding expenditures. Pursuant to N.J.A.C. 19:41-9.1(e) the balance at June 30, 1999 will be credited to casino licensees during fiscal year 2000 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, 1999. The balance at June 30, 1998 was credited in the same manner to casino licensees during fiscal year 1999.

NOTE 7 - 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. The liability for accumulated employee sick leave balances as of June 30, 1999 of approximately \$3.7 million is reflected in the State's Long-Term Debt Account Group 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, 1999 of approximately \$1.1 million is reflected in the State's General Long-Term Debt Account Group and is not accrued in these financial statements.

NOTE 8 - 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 1999 and fiscal year 1998 was equal to the effective rate of return on investments in the General Fund and varied from 4.80% to 5.45% in fiscal year 1999 and from 5.45% to 5.69% in fiscal year 1998. The net effect of these transactions is reflected in the Investment Earnings account on the Statement of Revenues, Expenditures, and Changes in Fund Balance.

NOTE 9 - Contingent Liability

The Casino Control Fund is involved in a number of legal actions wherein there is potential for unanticipated expenditure. The exact amount involved in these legal proceedings is not fully determinable. N.J.A.C. 19:41-9.1 allows the Casino Control Fund to apportion any uncollected cost among the licensed casino facilities.

STATE OF NEW JERSEY
CASINO CONTROL FUND
EXPENDITURE DETAIL
FISCAL YEARS ENDED JUNE 30, 1999 AND 1998

SCHEDULE I
(in \$000)

	<u>1999</u>		<u>1998</u>	
	<u>PUBLIC</u>	<u>GOVERNMENT</u>	<u>PUBLIC</u>	<u>GOVERNMENT</u>
	<u>SAFETY</u>	<u>DIRECTION</u>	<u>SAFETY</u>	<u>DIRECTION</u>
	<u>AND CRIMINAL</u>	<u>MANAGEMENT</u>	<u>AND CRIMINAL</u>	<u>MANAGEMENT</u>
	<u>JUSTICE</u>	<u>AND CONTROL</u>	<u>JUSTICE</u>	<u>AND CONTROL</u>
EXPENDITURES:				
Salaries	\$ 21,250.4	\$ 15,939.9	\$ 19,534.3	\$ 15,494.0
Payroll Taxes and Employee Benefits	3,437.4	3,594.7	3,921.1	3,346.0
Printing and Office Supplies	104.5	194.6	134.6	220.9
Vehicular Supplies	66.0	-	93.8	-
Travel	306.4	53.6	73.4	39.3
Telephone	315.0	214.7	321.9	205.0
Data Processing	982.1	849.9	729.5	1,263.0
Professional Services	95.8	68.7	367.3	130.6
Other Services Other Than Personal	633.7	133.0	602.1	149.8
Rent-Facilities	2,028.0	1,096.6	2,073.4	1,108.3
Rent-Automobiles and Other	107.3	115.1	120.1	68.7
Indirect Costs	1,139.7	51.6	1,075.9	66.8
Office Equipment	163.8	40.2	116.6	107.2
Vehicular Equipment	931.3	26.3	68.7	8.2
Other Equipment	<u>286.9</u>	<u>83.7</u>	<u>322.2</u>	<u>86.8</u>
TOTAL EXPENDITURES	<u>\$ 31,848.3</u>	<u>\$ 22,462.6</u>	<u>\$ 29,554.9</u>	<u>\$ 22,294.6</u>

Office of the State Auditor

**Report on Compliance and Internal Control
Related to Our Audit of the Financial Statements of the
State of New Jersey Casino Control Fund**

**For the Fiscal Year Ended
June 30, 1999**

**Report on Compliance and Internal Control
Related to Our Audit of the Financial Statements of the
State of New Jersey Casino Control Fund**

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN 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, 1999 and have issued our report thereon dated March 3, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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 that are required to be reported under *Government Auditing Standards*. However, we noted an immaterial instance of noncompliance, which we have reported to the management of the Casino Control Fund in a separate letter dated March 3, 2000.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Casino Control Fund'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 assurance 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 over financial reporting that might be material weaknesses. A material weakness is a 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 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 matter involving the internal control over financial reporting and its operation that we consider a material weakness.

This report is intended for the information of management, the governor, 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 3, 2000