

INDEPENDENT  
AUDITOR'S REPORT

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# New Jersey State Legislature

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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

### 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, 2008 and 2007. 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, 2008 and 2007, 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, 2008 and 2007 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 3, 2009 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 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.



Stephen M. Eells  
Assistant State Auditor  
June 3, 2009

STATE OF NEW JERSEY  
CASINO CONTROL FUND  
BALANCE SHEET  
JUNE 30, 2008 AND 2007

	2008	2007
<b><u>ASSETS</u></b>		
Cash	\$ 51,000	\$ 51,000
Accounts Receivable	11,818,889	10,263,791
Less: Allowance for Doubtful Accounts	100,743	97,790
Net Accounts Receivable	11,718,146	10,166,001
Due from General Fund	1,888,499	6,651,716
Total Assets	\$ 13,657,645	\$ 16,868,717
<b><u>LIABILITIES AND FUND BALANCES</u></b>		
Liabilities		
Accounts Payable	\$ 4,994,102	\$ 5,111,898
Deferred Revenue	3,222,500	8,184,000
Total Liabilities	8,216,602	13,295,898
Fund Balances		
Reserved for:		
Encumbrances	1,789,974	1,464,066
Unreserved:		
Designated for Continuing Appropriations	643,592	621,090
Undesignated	3,007,477	1,487,663
Total Fund Balances	5,441,043	3,572,819
Total Liabilities and Fund Balances	\$ 13,657,645	\$ 16,868,717

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, 2008 AND 2007**

	2008	2007
<b><u>REVENUES</u></b>		
Casinos		
Licenses - Casino	\$ 47,910,335	\$ 49,396,145
- Slot Machine	18,294,748	19,622,082
- Alcoholic Beverage	112,612	149,895
Assessments	---	---
	66,317,695	69,168,122
Credits - Prior Year Fund Balance	---	(75,921)
Total from Casinos	66,317,695	69,092,201
 Other Sources		
Licenses - Casino Employees	3,063,148	3,039,897
- Casino Service Industry	808,596	1,029,367
Equipment Prototype Testing	2,240,544	2,204,578
Other Revenues	80,573	65,651
Total from Other Sources	6,192,861	6,339,493
 Investment Earnings	462,419	214,015
 Total Revenues	72,972,975	75,645,709
 <b><u>EXPENDITURES</u></b>		
Public Safety and Criminal Justice (Division of Gaming Enforcement)	42,884,896	43,210,716
Government Direction, Management and Control (Casino Control Commission)	28,219,855	28,938,095
Total Expenditures	71,104,751	72,148,811
 Net Increase (Decrease) in Fund Balance for the Year	1,868,224	3,496,898
Fund Balance - Beginning	3,572,819	75,921
Fund Balance - Ending	\$ 5,441,043	\$ 3,572,819

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 2008 authorized \$74,662,834 which consists of an original appropriation of \$74,039,000 and other authorized appropriations of \$623,834. 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 2008, 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, 2008 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, 2008 follows:

<u>Program</u>	<u>Asset</u>	<u>Balance July 1, 2007</u>	<u>Additions</u>	<u>Retirements</u>	<u>Accumulated Depreciation</u>	<u>Net Capital Assets June 30, 2008</u>
Government Direction, Management and Control	Machinery & Equipment	\$767,530	\$102,085	---	\$376,939	\$492,676
Public Safety and Criminal Justice	Machinery & Equipment	\$622,025*	\$33,784	\$48,998	\$499,416	\$107,395

\* Restated from prior year to reflect an increase of \$57,795 due to asset revisions.

**NOTE 6 - Deferred Revenue**

Deferred Revenue represents fiscal year 2009 and fiscal year 2008 slot machine license billings collected and recorded in June 2008 and 2007, respectively.

**NOTE 7 - Fund Balance**

The positive fund balance as of June 30, 2008 and June 30, 2007 resulted from revenues exceeding expenditures. Pursuant to N.J.A.C. 19:41-9.1(e) the balance at June 30, 2008 will be credited to the casino licensees upon approval by the Commission 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, 2008. The balance at June 30, 2008 of \$5.4 million includes the fiscal year 2007 balance of \$3.6 million which was credited to the casino licensees in fiscal year 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, 2008 and June 30, 2007 of approximately \$4.0 million and \$4.1 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, 2008 and June 30, 2007 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 2008 and fiscal year 2007 was equal to the effective rate of return on investments in the General Fund and varied from 2.48% to 5.34% in fiscal year 2008 and from 5.01% to 5.38% in fiscal year 2007. 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, 2008**

	<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	\$50,092,863	\$48,754,863	\$47,910,335	\$ (844,528)
- Slot Machine	18,164,500	18,164,500	18,294,748	130,248
- Alcoholic Beverage	145,000	145,000	112,612	(32,388)
Assessments	---	---	---	---
Total from Casinos	<u>68,402,363</u>	<u>67,064,363</u>	<u>66,317,695</u>	<u>(746,668)</u>
Other Sources				
Licenses - Casino Employees	2,839,653	2,839,653	3,063,148	223,495
- Casino Service Industry	670,250	670,250	808,596	138,346
Equipment Prototype Testing	2,366,318	2,366,318	2,240,544	(125,774)
Other Revenues	<u>34,250</u>	<u>34,250</u>	<u>80,573</u>	<u>46,323</u>
Total from Other Sources	<u>5,910,471</u>	<u>5,910,471</u>	<u>6,192,861</u>	<u>282,390</u>
Investment Earnings	<u>200,000</u>	<u>500,000</u>	<u>462,419</u>	<u>(37,581)</u>
Total Revenues	<u>74,512,834</u>	<u>73,474,834</u>	<u>72,972,975</u>	<u>(501,859)</u>
<b>EXPENDITURES</b>				
Public Safety and Criminal Justice (Division of Gaming Enforcement)	44,983,292	44,983,292	43,491,321	1,491,971
Government Direction, Management and Control (Casino Control Commission)	<u>29,679,542</u>	<u>29,679,542</u>	<u>28,065,276</u>	<u>1,614,266</u>
Total Expenditures	<u>74,662,834</u>	<u>74,662,834</u>	<u>71,556,597</u>	<u>3,106,237</u>
Net Change in Fund Balance	(150,000)	(1,188,000)	1,416,378	2,604,378
FUND BALANCE - JULY 1, 2007	<u>150,000</u>	<u>1,487,663</u>	<u>1,487,663</u>	---
FUND BALANCE - JUNE 30, 2008	<u>\$ ---</u>	<u>\$ 299,663</u>	<u>\$ 2,904,041</u>	<u>\$ 2,604,378</u>

STATE OF NEW JERSEY  
CASINO CONTROL FUND  
BUDGETARY COMPARISON SCHEDULE  
BUDGET-TO-GAAP RECONCILIATION  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

**Budgetary Basis - Net Increase in Fund Balances** **\$ 1,416,378**

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.

\$ 964,539

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.

(512,693)

Total Differences - Budget to GAAP

451,846

**GAAP Basis - Net Increase In Fund Balances**

**\$ 1,868,224**

## **SUPPLEMENTARY INFORMATION**

STATE OF NEW JERSEY  
CASINO CONTROL FUND  
EXPENDITURE DETAIL  
FISCAL YEARS ENDED JUNE 30, 2008 AND 2007

	2008		2007	
	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION MANAGEMENT AND CONTROL	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION MANAGEMENT AND CONTROL
EXPENDITURES:				
Salaries	\$ 28,299,926	\$ 18,690,381	\$ 28,053,403	\$ 19,168,521
Payroll Taxes and Employee Benefits	9,201,543	6,146,920	9,726,278	6,641,596
Printing and Office Supplies	157,062	128,571	144,747	174,707
Vehicular Supplies	304,593	---	258,431	---
Travel	132,865	17,422	222,446	12,697
Telephone	301,266	240,548	291,843	191,794
Data Processing	397,064	883,679	345,883	973,147
Professional Services	59,571	188,758	222,727	91,646
Other Services Other Than Personal	630,552	112,944	618,321	152,349
Rent-Facilities	2,167,289	1,359,710	2,025,731	1,264,472
Rent-Automobiles and Other	55,872	175,546	66,918	168,121
Indirect Costs	688,016	131,037	816,085	35,349
Office Equipment	25,477	29,586	32,879	2,441
Vehicular Equipment	130,595	30,768	44,380	---
Other Equipment	<u>333,205</u>	<u>83,985</u>	<u>340,644</u>	<u>61,255</u>
TOTAL EXPENDITURES	<u>\$ 42,884,896</u>	<u>\$ 28,219,855</u>	<u>\$ 43,210,716</u>	<u>\$ 28,938,095</u>