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

Casino Control Fund

Fiscal Year 2003

Richard L. Fair
State Auditor

2002-2003
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Governor of New Jersey

The Honorable Richard J. Codey
President of the Senate

The Honorable Albio Sires
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 years ended June 30, 2003 and 2002. If you would like a personal briefing, please call me at (609) 292- 3700.

Richard L. Fair
State Auditor

March 11, 2004

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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, 2003 and 2002. 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 are not intended to present fairly the financial position and results of operation 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, 2003 and 2002 and the results of its operations 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 February 25, 2004 on our consideration of the Casino Control Fund's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering 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
February 25, 2004

STATE OF NEW JERSEY
CASINO CONTROL FUND
BALANCE SHEET
JUNE 30, 2003 AND 2002

	2003	2002
ASSETS		
Cash	$ 51,000	$ 51,000
Accounts Receivable	8,023,999	6,634,901
Less: Allowance for Doubtful Accounts	42,161	30,327
Net Accounts Receivable	7,981,838	6,604,574
Due from General Fund	10,604,017	8,399,819
Total Assets	$ 18,636,855	$ 15,055,393
LIABILITIES AND FUND BALANCES		
Liabilities		
Accounts Payable	$ 4,502,830	$ 4,769,552
Deferred Revenue	5,878,732	8,204,000
Total Liabilities	10,381,562	12,973,552
Fund Balances		
Reserved for:		
Encumbrances	1,980,961	696,795
Unreserved:		
Designated for Continuing Appropriation	1,944,696	1,524,871
Undesignated	4,329,636	(139,825)
Total Fund Balances	8,255,293	2,081,841
Total Liabilities and Fund Balances	$ 18,636,855	$ 15,055,393

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, 2003 AND 2002

	2003	2002
REVENUES		
Casinos		
Licenses - Casino	$ 41,411,777	$ 38,455,331
- Slot Machine	19,605,006	19,041,411
- Alcoholic Beverage	139,895	150,269
Assessments	-	-
	61,156,678	57,647,011
Credits - Prior Year Fund Balance	(2,081,841)	(10,503)
Total from Casinos	59,074,837	57,636,508
Other Sources		
Licenses - Casino Employees	3,530,356	2,051,606
- Casino Service Industry	1,250,360	1,225,565
Equipment Prototype Testing	1,131,470	923,527
Other Revenues	159,852	142,259
Total from Other Sources	6,072,038	4,342,957
Investment Earnings	239,795	242,185
Total Revenues	65,386,670	62,221,650
EXPENDITURES		
Public Safety and Criminal Justice (Division of Gaming Enforcement)	34,586,169	35,132,419
Government Direction, Management and Control (Casino Control Commission)	24,627,049	25,018,589
Total Expenditures	59,213,218	60,151,008
Net Increase (Decrease) in Fund Balance for the Year	6,173,452	2,070,642
Fund Balance - Beginning	2,081,841	11,199
Fund Balance - Ending	$ 8,255,293	$ 2,081,841

The accompanying notes are an integral part of 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 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 2003 authorized $62,737,000. 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 2003, neither the Casino Control Commission nor the Division of Gaming Enforcement was granted an additional appropriation. Additional appropriation authority is granted to recover prior year deficits.

A Statement of Revenues, Expenditures, and Changes in Fund Balances Budget and Actual-Budgetary Basis for the fiscal year ended June 30, 2003 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) 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 11.

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. A summary of these capital assets and related accumulated depreciation for the year ended June 30, 2003 follows:

Program	Asset	Balance July 1, 2002	Additions	Retirements	Accum. Depreciation	Net Capital Assets
Government Direction, Management and Control	Machinery & Equipment	$1,024,685	-	$736,368	$191,252	$97,065
Public Safety and Criminal Justice	Machinery & Equipment	$787,789	$284,468	$218,666	$366,809	$486,782

NOTE 6 - Deferred Revenue

Deferred Revenue represents fiscal year 2004 and fiscal year 2003 slot machine license billings collected and recorded in June 2003 and 2002, respectively.

NOTE 7 - Fund Balance

The positive fund balance as of June 30, 2003 and June 30, 2002 resulted from revenues exceeding expenditures. Pursuant to N.J.A.C. 19:41-9.1(e) the balance at June 30, 2003 will be credited to casino licensees during fiscal year 2004 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, 2003. The balance at June 30, 2002 was credited in the same manner to casino licensees during fiscal year 2003.

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, 2003 and June 30, 2002 of approximately $3.6 million and $3.9 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, 2003 and June 30, 2002 of approximately $1.2 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 2003 and fiscal year 2002 was equal to the effective rate of return on investments in the General Fund and varied from 1.35% to 2.26% in fiscal year 2003 and from 2.23% to 4.46% in fiscal year 2002. 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.

NOTE 11 - Restatement of Fund Balance

The fund balance at the beginning of fiscal year 2002 has been restated from $10,503 to $11,199 so that the fund balance is in agreement with that reflected on the State's financial statements. This difference is the result of the Casino Control Fund and the State's General Fund recognizing certain dishonored checks in different accounting periods.

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, 2003

	Original Budget	Final Budget	Actual	Variance with Final Budget
REVENUES				
Casino				
Licenses -Casino	$ 37,737,580	$ 37,737,580	$ 39,329,936	$ 1,592,356
-Slot Machine	19,256,500	19,256,500	19,605,006	348,506
-Alcoholic Beverage	161,683	161,683	139,895	(21,788)
Assessments	-	-	-	-
Total from Casinos	57,155,763	57,155,763	59,074,837	1,919,074
Other Sources				
Licenses -Casino Employees	3,367,137	3,367,137	3,532,856	165,719
-Casino Service industry	1,083,250	1,083,250	1,247,860	164,610
Equipment Prototype Testing	990,000	990,000	1,131,470	141,470
Other Revenues	140,850	140,850	159,852	19,002
Total from Other Sources	5,581,237	5,581,237	6,072,038	490,801
Investment Earnings	-	-	239,795	239,795
Total Revenues	62,737,000	62,737,000	65,386,670	2,649,670
EXPENDITURES				
Public Safety and Criminal Justice (Division of Gaming Enforcement)	36,039,438	36,039,438	35,079,987	959,451
Government Direction, Management and Control (Casino Control Commission)	28,239,180	28,239,180	25,673,187	2,565,993
Total Expenditures	64,278,618	64,278,618	60,753,174	3,525,444
Net Change in Fund Balance	(1,541,618)	(1,541,618)	4,633,496	6,175,114
FUND BALANCE - JULY 1, 2002	2,081,841	2,081,841	2,081,841	-
FUND BALANCE - JUNE 30, 2003	$ 540,223	$ 540,223	$ 6,715,337	$ 6,175,114

STATE OF NEW JERSEY
CASINO CONTROL FUND
BUDGETARY COMPARISON SCHEDULE
BUDGET-TO-GAAP RECONCILIATION
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

Budgetary Basis -Net Increase in Fund Balances		$ 4,633,496
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.	$ 1,821,989	
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.	(282,033)	
Total Differences - Budget to GAAP		$ 1,539,956
GAAP Basis - Net Increase in Fund Balances		**$ 6,173,452**

SUPPLEMENTARY INFORMATION

STATE OF NEW JERSEY
CASINO CONTROL FUND
EXPENDITURE DETAIL
FISCAL YEARS ENDED JUNE 30, 2003 AND 2002

	2003		2002	
	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION MANAGEMENT AND CONTROL	PUBLIC SAFETY AND CRIMINAL JUSTICE	GOVERNMENT DIRECTION MANAGEMENT AND CONTROL
EXPENDITURES:				
Salaries	$ 23,074,161	$ 17,750,057	$ 23,264,218	$ 17,826,910
Payroll Taxes and Employee Benefits	5,114,827	4,235,539	5,447,219	4,577,171
Printing and Office Supplies	159,918	185,972	159,529	120,902
Vehicular Supplies	118,686	-	103,645	-
Travel	126,775	80,673	191,082	43,512
Telephone	298,982	178,314	309,937	168,961
Data Processing	590,941	522,129	376,669	489,508
Professional Services	200,310	61,592	130,982	116,170
Other Services Other than Personal	890,623	152,745	484,115	149,364
Rent - Facilities	2,176,997	1,100,652	2,153,222	1,148,817
Rent - Automobiles and Other	104,324	106,806	99,012	106,594
Indirect Costs	1,049,310	61,708	1,563,775	70,953
Improvements	-	-	-	-
Office Equipment	178,749	41,285	386,146	104,025
Vehicular Equipment	172,377	-	162,153	-
Other Equipment	329,189	149,577	300,715	95,702
TOTAL EXPENDITURES	$ 34,586,169	$ 24,627,049	$ 35,132,419	$ 25,018,589

Office of the State Auditor
Report on Compliance and on 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, 2003

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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, 2003, and have issued our report thereon dated February 25, 2004. 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.

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 affect on the determination of financial statements 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*.

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 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 controls over financial reporting and its operation that we consider a material weakness.

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

Richard L. Fair
State Auditor
February 25, 2004