SLOT REVENUE

VERSION 1
OCTOBER 1, 2000

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TERMINOLOGY

The following terminology is applicable to slot revenue:

Bill validator	See definition of "currency acceptor".
Calibration module	That portion of a coin weighing apparatus where electronic signals transmitted by the scale platform are accepted and converted into pounds, number of coins, or dollar values.
Cashless wagering system	**NRS 463.014(1)**. A method of wagering and accounting in which the validity and value of a wagering instrument or wagering credits are determined, monitored and retained by a computer operated and maintained by a licensee which maintains a record of each transaction involving the wagering instrument or wagering credits, exclusive of the game or gaming device on which wagers are being made. The term includes computerized systems which facilitate electronic transfers of money directly to or from a game or gaming device.
Change person	An individual who makes change in the slot area and pays off jackpots. Change personnel have imprest change banks where the majority of their currency and coins are stored. Change banks typically range in value from $300 to $1,500.
Coin counting devices	There are two types of coin counters. First, there is the mechanical coin counter. This device counts each coin individually. Due to the slow pace of the mechanical coin counters, these devices have been largely replaced by the weigh scale, which is the second type of device. The drop from each machine is weighed and the results are either recorded as a monetary value or by weight. If only the weight is recorded, the accounting or slot department will have a conversion factor that would be applied to the weigh figure to determine the monetary value of the slot drop.
Currency acceptor	A device on a slot machine that allows patrons to wager with currency (i.e., paper money) rather than coin or tokens.
Currency counting devices	There are several types of currency counting devices used in soft count rooms. Currency counting devices that record the value of the bills by individual box and produce the source document for slot/table games currency counts must be reported to the Board as associated equipment. Currency counting devices that merely count the number of bills and are used in verifying bulk counts and/or in the strapping of the currency are devices that do not require reporting as associated equipment.

Inter-casino Linked Progressive System

A system whereby progressive slot machines are linked to a common payout. The progressive meter increases with each coin played at any progressive machine that is part of the system. The jackpot may occur at any of the locations. Inter-casino linked systems are defined in **NRS 463.01643. Regulations 5.112 and 5.180** discuss the operation of inter-casino linked systems.

Jackpot payout slips, tickets or sheets

Slot machines are limited as to the number of coins that can be paid out automatically when a winning combination is hit. When a jackpot exceeds the maximum coin payout on a machine, the payout will usually be made by slot change personnel. As evidence of the hand payout, slot change personnel fill out a jackpot payout slip which contains, at a minimum, date and time, machine number, amount (both alpha and numeric), reel symbols and the signatures of at least two persons verifying and witnessing the payout (a third person independent of the slot department is needed for large amounts). A similar form, containing the same information, will evidence a slot fill.

Lottery

NRS 462.105. Lottery means any scheme for the disposal or distribution of property, by chance, among persons who have paid or promised to pay any valuable consideration for the chance of obtaining that property, or a portion of it, or for any share or interest in that property upon any agreement, understanding or expectation that it is to be distributed or disposed of by lot or chance, whether called a lottery, raffle or gift enterprise, or by whatever name it may be known. The term lottery does not include a promotional scheme conducted by a licensed gaming establishment in direct association with a licensed gaming activity, contest or tournament. All lotteries except for charitable lotteries are illegal in Nevada.

Overs/shorts

At the end of a shift, slot change personnel or slot booths may have overs or shorts (actual cash balance is more or less than imprest amount). Overs and/or shorts should not enter into the computation of revenue because they do not result from the making of a specific wager. (A specific wager requires two or more persons to stake something of value on an event, the outcome of which is uncertain.)

Payback percentage

The theoretical percentage of wagers made at a slot machine that will be paid back to patrons over the long run. For example, if a slot machine has a payback percentage of 96%, $10 million in wagers would be expected to result in the licensee keeping $400,000 and patrons being returned $9.6 million in the form of winning jackpots. Note that the payback percentage can also be thought of as one minus the theoretical hold percentage.

Progressive slot machine

A slot machine that has a payoff indicator that increases over time or as the machine is played (see **Regulation 5.110**).

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Short pays (beefs)	When a winning combination is made and the slot machine pays less than the required number of coins, a short pay results.	
Slot booths	A slot booth is normally staffed by one person and is a center where a great deal of change-making is done. The slot booth is primarily used by patrons who either want a large amount of coin or else want to cash out their slot winnings.	
Slot count keys	**Slot machine drop keys**	Keys used to access slot machine coin drop cabinets.
	Currency acceptor drop box release keys	Keys used to remove currency acceptor drop boxes from slot machines.
	Currency acceptor drop box storage rack keys	Keys used to open storage area where currency acceptor drop boxes are kept after removal from slot machines and prior to the count of their contents.
	Currency acceptor drop box contents keys	Keys used to gain access to the contents of currency acceptor drop boxes.
	Count room keys	Keys used to gain entrance to the rooms designated for the counting of the contents of slot machine hoppers and currency acceptor drop boxes.
	Duplicate keys	Duplicate keys to the above sensitive areas. Duplicate keys should be maintained in such a manner as to provide the same degree of control as is exercised over the original keys.
Slot count sheet (weigh count sheet)	The results of the count by machine number are recorded on this document in ink. This can be a handwritten document or a weigh tape generated by a weigh scale. At the conclusion of the count, at least three count team members should sign this document.	
Slot drop box (drop bucket or slot cabinet)	Terms refer to the area found directly below the slot machines. The coins that are wagered and not diverted to the hopper will end up in the drop bucket.	
Slot fill	When coins or tokens are physically placed in the hopper.	

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Slot hopper	A device located within the slot machine where coins are temporarily stored. The purpose of this device is to pay patrons for small wins. Replenishing the hopper is either done by a fill to the machine or by coin being routed to the hopper when a wager is made.
Slot meters	Slot machines can have many different meters (e.g., coin-in meters, bill-in meters, drop meters, attendant pay meters, yield meters, etc.). Regulation 14 Technical Standard 2.040 specifies the required meters.
Slot shill (starter)	An employee engaged and financed by the licensee as a player for the purpose of stimulating play on slot machines.
Slot wrap sheet (wrapped count sheet)	Generally, at the conclusion of or during the count, the licensee either wraps or bags the counted/weighed coins. The results of the count of the wrapped coins are posted to the slot wrap sheet.
Theoretical hold	The percentage that a machine is designed to win or hold. It is a statistical computation whereby all possible winning combinations on a slot machine are considered in the determination of a theoretical hold percentage. The theoretical hold percentage is compared with the actual hold percentage on a periodic basis. Any material deviations between the theoretical and the actual hold percentages should be investigated by the slot manager and by management personnel independent of the slot department.
Wide Area Progressive System	An inter-casino linked system whereby participating casinos link certain progressive machines with those at other locations. The progressive system is usually under the control of a third party; however, linked progressives are becoming more common among affiliated licensees. See “inter-casino linked progressive system”.

GENERAL

NRS 463.0191 defines a slot machine as any mechanical, electrical or other device, contrivance or machine which, upon insertion of a coin, token or similar object, or upon payment of any consideration, is available to play or operate, the play or operation of which, whether by reason of the skill of the operator in playing a gambling game which is presented for play by the machine or application of the element of chance, or both, may deliver or entitle the person playing or operating the machine to receive cash, premiums, merchandise, tokens or anything of value, whether the payoff is made automatically from the machine or in any other manner. **Regulation 6.110** defines slot revenue for each slot machine as drop less fills to the machine and jackpot payouts.

In the computation of gross revenue pursuant to **NRS 463.3715** there are certain items which may or may not be deducted as losses. Any prizes, premiums, drawings, benefits or tickets that are redeemable for money or merchandise or other promotional allowance, except money or tokens paid at face value directly to a patron as the result of a specific wager**, may only be deducted** as losses from winnings at a slot machine. The amount of cash paid to fund periodic

payments **may be deducted** as losses from winnings for any game. The actual cost to the licensee of any personal property distributed to a patron as the result of a specific legitimate wager **may be deducted** as a loss, but not travel expenses, food, refreshments, lodging or services. A licensee **may deduct** its pro rata share of a payout from a game played in an inter-casino linked system; additionally, cash prizes and the value of noncash prizes awarded during a contest or tournament conducted in conjunction with an inter-casino linked system **are deductible** on a pro rata basis. See the "Inter-casino Linked Systems" section for a further discussion of deductions related to these systems.

Pursuant to **NRS 463.0161** the term "gross revenue" does not include:

a. Counterfeit facsimiles of money, chips, tokens, wagering instruments or wagering credits;
b. Coins of other countries which are received in gaming devices;
c. Any portion of the face value of any chip, token or other representative of value won by a licensee from a patron for which the licensee can demonstrate that it or its affiliate has not received cash;
d. Cash taken in fraudulent acts perpetrated against a licensee for which the licensee is not reimbursed;
e. Cash received as entry fees for contests or tournaments in which patrons compete for prizes, except for a contest or tournament conducted in conjunction with an inter-casino linked system;
f. Cash provided by the licensee to a patron and subsequently won by the licensee, for which the licensee can demonstrate that it or its affiliate has not been reimbursed.

It is important for the auditor to understand how slot revenue flows through a casino's operations so that the audit can be properly planned and performed. The flow of slot revenue starts with a patron making a wager in a slot machine. If the wager is made with coin (or token), it falls into the slot hopper. When the hopper is full coin spills into the drop bucket. If a wager is made with currency, it is stored in the currency acceptor drop box. When a patron hits a jackpot the machine will either directly pay the patron (i.e., from the coin stored in the hopper) or a slot floorperson will pay the patron via a jackpot ticket. Jackpot payouts usually involve a slot floorperson and a cashier. Sometimes patrons will hit so many jackpots that the hopper empties out. On these occasions the slot floorperson will fill the machine. Fills are completed in a manner that is similar to that of jackpots. Periodically (usually daily) the slot drop team will remove the drop buckets and currency acceptor drop boxes from the slot machines, and will take them to the hard and soft count rooms, respectively. The hard count and soft count teams then count the funds. The counted funds are recorded on appropriate count documentation and are verified by the cage. The cage takes the funds into its accountability and the count teams deliver the count documents to the accounting department where accounting personnel audit the day's slot documentation (e.g., count sheets, jackpot/fill slips and any other documentation associated with the generation of slot revenue). Slot revenue (i.e., drop less jackpots and fills) is then posted to the accounting records (e.g., revenue journal or general ledger). At the end of the month the licensee uses these accounting records to prepare the gross revenue tax report.

The above example is meant to provide the auditor with a general overview of how slot revenue flows through a casino's operations. It is important that the auditor read the casino's internal control system, submitted to the Board, which describes in significant detail how revenue flows through a casino's operations.

IN-HOUSE PROGRESSIVE PAYOFF SCHEDULES

Regulation 5.110 addresses in-house progressive payoff schedules including those offered in conjunction with slot machines. The regulation states that progressive payoff schedules may have limits. Also, the payout indicators (progressive meters) cannot be turned back except for a payout to a customer, the meter going over the progressive limit, or a documented malfunction. The progressive amounts may be transferred to other machines but this must also be documented. Unlike games, progressive slot machine payoff schedules may not be given away through a concluding contest, tournament or promotion. For the purposes of auditing gaming establishments, no work typically needs to be done with regard to inter-casino linked progressive payoff schedules. This responsibility lies with the operator of the system.

EPROM DUPLICATION

An EPROM (also known as *erasable programmable read-only memory*) is generally a computer chip that determines a slot machine's graphics, randomness, and game play features. Pursuant **to Regulation 14.160**, a licensee other than a manufacturer shall not duplicate the contents of gaming device program media unless its duplication process has received written approval of the Chairman. If a licensee holds both a nonrestricted gaming license and a manufacturer's license, it is not necessary for it to receive specific written approval from the Chairman to duplicate EPROMs. Note, however, that a manufacturer's license issued to an affiliate of the gaming licensee does not allow this latter licensee to duplicate EPROMs (i.e., the latter licensee must receive its own written approval from the Chairman). EPROMs may also be used in player tracking systems. It is not necessary to hold a manufacturer's license in order to "legally" duplicate player tracking EPROMs.

PLAYER TRACKING SYSTEMS

Several casinos use a system whereby they can identify slot wagering activity by patron. One of the purposes of such player tracking is to award patron points redeemable for prizes. Generally, if the points are awarded on the basis of coin-in (i.e., wagering rebates are provided to patrons), the prizes are not deductible. If the points are based on payouts (i.e., bonus awards are provided to patrons), the prizes are deductible.

INTER-CASINO LINKED SYSTEMS

Inter-casino linked slot systems are simply slot machines at multiple locations which are linked to a common non-progressive or progressive jackpot or multiple-location player tracking/bonusing systems (excluding player tracking run by a licensee solely for its affiliates). Some inter-casino linked systems are owned and operated entirely by affiliated casinos. Others are operated by a third party for numerous affiliated or unaffiliated casinos. The overall revenue accounting for inter-casino linked systems is really no different than it is for any other slot machine. Drop is still all the coin and tokens in the drop bucket; fills are all the fills made to the machines; and jackpot payouts are still all the cash awards made to a patron on a winning wager.

NRS 463.3715(5) became effective June 22, 1995. This statute specifically allows licensees to deduct their pro rata share of a payout from a game played in an inter-casino linked system

except for a payout made in conjunction with a card game. This means that all payouts (including the non-progressive ones that licensees are reimbursed for) associated with the system are deductible. The amount of the deduction must be based upon the written agreement among licensed gaming establishments participating in the inter-casino linked system and the operator of the system. Additionally, all cash prizes and the value of noncash prizes awarded during a contest or tournament conducted in conjunction with an inter-casino linked system are also deductible on a pro rata basis to the extent of the compensation received for the right to participate in that contest or tournament. A participating licensee must have had an active gaming license at any time during the month in which a payout was awarded to be entitled to a deduction. If large progressive payouts are paid out over time, pursuant to **Regulation 5.115**, only the amount of cash used to fund the payout may be deducted from revenue.

FREE PLAY AND PROMOTIONAL ITEMS

The authoritative bases for the tax treatment of free play and promotional items can be found in **NRS 463.0161**, **NRS 463.3715** and **Regulation 6.110**. The following chart summarizes the accounting treatment of some typical promotional items:

Item	Proper Accounting Treatment
Free Pulls on a Promotional Device (not approved gaming device)	$0 drop, deduct $0 payouts
Free Pulls on a Gaming Device	$0 drop, deduct all payouts ➨
Free Play Wagering (Negotiable: including free coin/tokens)	If distinguishable, $0 drop for free play, deduct all payouts ➨
Free Play Wagering (Nonnegotiable)	$0 drop for free play, deduct all payouts ➨
Slot Machine Negotiable Wagering Credits (if tracked when wagered)	$0 drop, deduct all payouts ➨
Slot Machine Negotiable Wagering Credits (if NOT tracked when wagered)	Add the cash value of the wagering credits to slot drop (assumption is all credits were cashed out)
Non-Cash Prizes for Winning Wagers	Deduct cost to licensee of non-cash prizes awarded for winning wagers
Premium points for Winning Wagers (coin-out)	Deduct cash or cost of prizes for premium points redeemed
Premium points for OTHER than winning wagers (coin-in)	Do NOT deduct cash or cost of prizes for premium points redeemed
Promotional Activity Reimbursed by a Third Party	Total amount wagered in drop, deduct all payouts
Real Gold or Silver Coin (legal tender)	Deduct cost to licensee of real gold or silver coins paid out ➨
Gold or Silver Tokens (NOT legal tender)	Deduct only the face value of gold or silver tokens paid out
Tournaments/Contests/Drawings	No effect on revenue if not part of an inter-casino linked system
Bonus Payouts	Deduct all bonus payouts
Mystery Jackpots (if selected by a	Deduct all Mystery Jackpot payouts

random number generator)	

➨ Use of this tax treatment is allowable only if specific record keeping requirements are adhered to.

SLOT HOPPER LOAD ANALYSIS

Regulation 6.110(2) states, in part, that slot machine revenue is computed as drop less fills to the machine and jackpot payouts. The initial hopper load is not a fill and does not affect gross revenue. The difference between the initial hopper load and the total amount that is in the hopper at the end of a licensee's fiscal year end must be adjusted accordingly as an addition to or subtraction from the drop for that year.

SLOT STATISTICAL ANALYSIS PROCEDURES

The Minimum Internal Control Standards require that a licensee monitor slot machine performance through the use of a slot statistical analysis report. One analysis tool is a floor par. A floor par is simply a combined theoretical hold for all machines on the floor whether by machine type, denomination or in total. The theoretical hold is combined by weighting each machine's theoretical hold based on coin-in. The use of floor pars will save considerable time in analyzing slot machine performance but there are several caveats:

- Be wary of reports that use historical percentages for the theoretical hold.

- A true floor par report involves more calculations than does a floor par report by denomination (e.g., dollar amounts must be converted). Closely examine the method used to derive the floor par and verify a significant number of the calculations. Ensure that the floor par is not computed as a simple average of all slot machine par percentages.

- Reports formatted by machine type or denomination are preferable in that problem areas, should they arise, are more easily identified.