



**STATE OF NEVADA  
GAMING CONTROL BOARD**

**GAMING AUDIT PROCEDURES MANUAL**

**Current as of October 1, 2000 for all sections except  
Entertainment which is current as of November 13, 2009**

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## **INTRODUCTION**

The “Gaming Audit Procedures Manual” (GAP Manual) is a compilation of definitions, descriptions and general terminology used in the Minimum Internal Control Standards, the CPA MICS Compliance Checklists and the Internal Audit Compliance Checklists developed by the Board. Additionally, the GAP Manual includes various policies and procedures used by the Board in performing routine full compliance audits of all Group I casinos in Nevada. The purpose of this manual is to assist casino accounting and auditing personnel in complying with the myriad of gaming laws and regulations currently in effect. The information in this manual will be updated periodically, and new versions of the manual will subsequently be issued. However, due to the frequency with which gaming laws and regulations change, the most current version of the GAP Manual may not always be up-to-date. It is the responsibility of each casino to ensure compliance with all gaming laws and regulations currently in effect.

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# **SLOT REVENUE**

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**SLOT REVENUE**

**TERMINOLOGY**

The following terminology is applicable to slot revenue:

<b>Bill validator</b>	See definition of “currency acceptor”.
<b>Calibration module</b>	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.
<b>Cashless wagering system</b>	<b>NRS 463.014(1).</b> 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.
<b>Change person</b>	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.
<b>Coin counting devices</b>	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.
<b>Currency acceptor</b>	A device on a slot machine that allows patrons to wager with currency (i.e., paper money) rather than coin or tokens.
<b>Currency counting devices</b>	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.

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<b>Inter-casino Linked Progressive System</b>	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 <b>NRS 463.01643. Regulations 5.112 and 5.180</b> discuss the operation of inter-casino linked systems.
<b>Jackpot payout slips, tickets or sheets</b>	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.
<b>Lottery</b>	<b>NRS 462.105.</b> 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.
<b>Overs/shorts</b>	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.)
<b>Payback percentage</b>	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.
<b>Progressive slot machine</b>	A slot machine that has a payoff indicator that increases over time or as the machine is played (see <b>Regulation 5.110</b> ).

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<b>Short pays (beefs)</b>	When a winning combination is made and the slot machine pays less than the required number of coins, a short pay results.	
<b>Slot booths</b>	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.	
<b>Slot count keys</b>	<b>Slot machine drop keys</b>	Keys used to access slot machine coin drop cabinets.
	<b>Currency acceptor drop box release keys</b>	Keys used to remove currency acceptor drop boxes from slot machines.
	<b>Currency acceptor drop box storage rack keys</b>	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.
	<b>Currency acceptor drop box contents keys</b>	Keys used to gain access to the contents of currency acceptor drop boxes.
	<b>Count room keys</b>	Keys used to gain entrance to the rooms designated for the counting of the contents of slot machine hoppers and currency acceptor drop boxes.
	<b>Duplicate keys</b>	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.
<b>Slot count sheet (weigh count sheet)</b>	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.	
<b>Slot drop box (drop bucket or slot cabinet)</b>	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.	
<b>Slot fill</b>	When coins or tokens are physically placed in the hopper.	

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<b>Slot hopper</b>	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.
<b>Slot meters</b>	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.
<b>Slot shill (starter)</b>	An employee engaged and financed by the licensee as a player for the purpose of stimulating play on slot machines.
<b>Slot wrap sheet (wrapped count sheet)</b>	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.
<b>Theoretical hold</b>	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.
<b>Wide Area Progressive System</b>	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



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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.

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**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

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(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:

<u>Item</u>	<u>Proper Accounting Treatment</u>
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 random number generator)	Deduct all Mystery Jackpot payouts

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→ 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.

# **TABLE GAMES REVENUE**

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**TABLE GAMES TERMINOLOGY**

The following terminology is applicable to table games revenue:

<b>24-hour shift</b>	A casino may request and receive Board approval to operate on a 24-hour shift in the pit department.
<b>Call bet</b>	A vocal credit bet made by a patron. A credit instrument is completed at the conclusion of the playing of the hand or the call of the dice should the customer lose the bet. The purpose of a call bet is to allow the patron to begin play immediately. This includes "heeled" or "marked" bets which are advanced by the licensee for double downs, splits or certain craps bets.
<b>Credit slip</b>	A form used to record the amount of money or chips removed from a table game (i.e., table tray), or the transfer of IOU's, markers, or other credit instruments from a table game to the cashier's cage.
<b>Cross fill</b>	Transfer of cash and/or chips from one gaming table to another. If this procedure is used, the licensee must use adequate documentation.
<b>Drop</b>	The total amount of money, chips and tokens contained in the table drop boxes.
<b>Drop box</b>	A locked container permanently marked to indicate game, table number and shift. All markings must be clearly visible at a distance of 20 feet. The container must be locked to the table, separately keyed from the container itself. All monies exchanged for chips or credit instruments at the table and other such items or documents as management may direct pertaining to transactions at the table must be put into the container.
<b>Fill slip</b>	A form used to record the amount of money or chips furnished to a table game (i.e., table tray) from the cashier's cage.
<b>Games summary (stiff sheet)</b>	A form used to record, by shift and day, the individual table games winnings and/or losses. The form reflects the total count of opening and closing table top inventories, fills and credits, drop and win/loss per gaming table.
<b>Lammer button (marker button)</b>	A numbered, chip like implement placed on the gaming table indicating the amount of house chips that have been removed from a table tray during a table credit slip transaction, or an amount of chips that has been given to a customer for wagering on credit prior to completion of a credit instrument.

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<b>Lottery</b>	<b>NRS 462.105.</b> 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.	
<b>Rim credit</b>	Extension of credit that is not evidenced by an immediate preparation of a marker but does not include a <b>call bet</b> . All such extensions and subsequent repayments are recorded individually on a prenumbered document (e.g., player card).	
<b>Soft count</b>	The procedure for counting the total amount of currency and chips removed from the drop boxes; the amount counted is entered onto the games summary (stiff sheet).	
<b>Soft count keys</b>	<b>Drop box release keys</b>	Keys used to remove drop boxes from table and card games tables.
	<b>Drop box storage rack keys</b>	Keys used to open storage area where table drop boxes are kept after removal from tables and prior to the count of their contents.
	<b>Drop box contents keys</b>	Keys used to gain access to the contents of table games drop boxes.
	<b>Count room keys</b>	Keys used to gain entrance to the room designated for the counting of the contents of table games drop boxes.
	<b>Duplicate keys</b>	Duplicate keys to the above four 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.
<b>Statistical drop</b>	Drop as defined by <b>Regulation 1.095</b> plus marker credit slips plus pit credit repaid with chips.	

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<b>Statistical win</b>	Table games gross revenue as defined by <b>Regulation 6.110</b> plus marker credit slips.
<b>Table top inventory (bankroll)</b>	The total of coin and house chips in the table rack. If markers are part of the table inventories at the end of a shift, they should not be included in the bankroll figures used to calculate gross revenue. Table top inventory may be maintained at an imprest amount or the amount may fluctuate.
<b>Vigorous (commissions)</b>	A commission (usually 5-10% of the wager) charged and retained by the casino for certain bets, including betting on the banker's hand in baccarat and buy and lay bets in craps (similar to a rake in poker).

**DEPARTMENTAL ORGANIZATION**

A table games shift is generally staffed by the following people:

The **casino manager** (sometimes known as the property shift manager or as "#1") has ultimate authority over the entire casino during his shift.

The **table games shift manager** has authority over all table games and card games for one shift. Some casinos do not use this level of authority.

The **pit shift supervisor/pit floorperson** (pit boss) has authority over one pit or a certain designated number of tables. This level authorizes fills and credits.

The **dealer** is responsible for his table and for the accuracy of any paperwork that he drops in his drop box during the shift.

The **pit clerk** is a position that is frequently used in conjunction with computerized pit systems. Pit clerks generally obtain requests for table fills and credits from pit supervisory personnel, input the information into the computer system, return the original requests to the supervisor and forward copies of the requests to the cage at the end of each shift. They are often also responsible for inputting marker information into the computer system. This includes determining that the customer has available credit, that the printed markers are properly completed, and that signed markers are securely maintained in the pit until they are transferred to the cage. Pit clerks can also be responsible for inputting player rating information in the computer system.

**GENERAL**

It is important for the auditor to understand how table game revenues flow through a licensee's operations so that the audit can be properly planned and performed. The actual flow of revenue generally begins when a player approaches a table and buys into a game with cash. The cash buy-in is displayed in public view on the table and is then exchanged for chips from the table inventory tray. The cash is then dropped into the table's drop box by the dealer. Each table's



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drop box is required to be permanently marked with the game, shift, and a number corresponding to a permanent number on the table.

Sometimes, instead of purchasing chips, a patron will place a cash wager. **NRS 463.307** requires that gaming be conducted with chips/tokens or other instrumentalities approved by the Board or legal tender of the United States. Licensees may accept foreign currency at the tables as long as certain procedures specified in the Minimum Internal Control Standards (MICS) are followed. Winning cash wagers are paid with chips. Losing cash wagers are dropped in the drop box.

During a shift, the table tray inventory may need to be replenished (filled) with chips from the cage. It is also possible that the table tray may accumulate too many chips of one or more denominations. In this case, chips are sent (credited) from the table to the cage. These transfers are controlled by forms called fill slips or credit slips, respectively. Fill and credit slips are generally prepared by a cage cashier. The standard slips are 3-part, serially-numbered forms. One copy is retained by the cage to facilitate end-of-shift balancing. One copy is dropped in the drop box. The third copy is "restricted" (protected) in some way to prevent subsequent alteration.

At the end of each shift, as the drop team is bringing empty drop boxes to the pit for the upcoming shift, the out-going and in-coming pit shift supervisors begin to count the inventory of chips in the table trays. If these table inventory counts are to be dropped, they are documented on two-part table inventory forms. After these forms are completed and signed, someone other than a shift supervisor (e.g., a dealer or security personnel) drops one part of the forms (also known as the "closer") into the drop boxes of the ending shift. The drop team then begins removing the full drop boxes from the tables and replaces them with the empty ones. The second part of the table inventory forms (also known as the "opener") is then placed in the empty boxes, again by someone other than the pit supervisors. The drop is completed after the drop team transports and secures the full boxes in the soft count room. If the closing/opening count form is not dropped, the form is delivered to the cage or the soft count team to be recorded on the stiff shift prior to or in conjunction with the soft count.

The above information is meant to provide the auditor with a general overview of how table game revenues flow 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.

**SOFT COUNT**

Each day the soft count team members enter the count room to count the funds in the drop boxes. They then either record on, or trace to, the count sheets the drop, fill/credit, marker issue stub and opening/closing table inventory amounts. Even licensees with computerized soft counts are required to record or trace these amounts. The reason for this is that only soft count personnel can attest to the fact that these monies and documents did indeed come out of the drop boxes. Hence, all soft count members are required to sign the count sheet as proof of their attestation.

The Minimum Internal Control Standards require that the count team be independent of the transactions being counted and reviewed and the subsequent accountability of the soft drop proceeds. As points of clarification, it is acceptable for a dealer to count drop proceeds from the

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same shift in which he dealt cards. A cage cashier may be used; however, this person may not perform the recording function or accept the count proceeds into cage accountability. If a cage manager is used, the count team must also report to someone independent of the cage as well as the pit department. Additionally, the standards allow an accounting representative to participate so long as an independent audit of the soft count documentation is performed.

Occasionally, employees of an independent security firm will act as the "observer". Employees of independent firms are not required to be included on the licensee's Regulation 6.130 count team submission. Furthermore, these individuals are not required to carry a gaming work card because, pursuant to the provisions of **NRS 463.0157**, they are not considered gaming employees.

After the count team has completed the count, cage or vault personnel count the drop proceeds and accept the funds into the cage's accountability. The count that cage or vault personnel performs must be independent of any counts that the count team performs. Cage or vault personnel may verify the drop by counting the currency in bundles; however, a sample of bundles should be broken down and counted.

The count team then delivers the count sheet and supporting paperwork (e.g., count sheets, fill/credit slips, table top inventory forms and any other documentation associated with the generation of table games revenue) to the accounting department. After the documents are audited, table games revenue 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 tax report.

**GROSS REVENUE CALCULATIONS**

**Regulation 6.110** defines table games gross revenue as "closing bankroll plus credit slips for cash, chips or tokens returned to the casino cage, plus drop, less opening bankroll and fills to the table." Revenue for all table games is computed by this method.

Per the above definition, table games gross revenue would be calculated as follows:

Closing Bankroll	+
Credit Slips (for cash, chips or tokens)	+
Drop (per <b>Regulation 1.095(1)</b> )	+
Opening Bankroll	-
Fill Slips	-
	-----
Equals Gross Revenue (Loss)	<b><u>+ or -</u></b>

If the licensee makes final fills/credits to bring table bankrolls up/down to a standard (imprest) amount, then closing and opening table bankrolls would have no effect on reported win. It is also important to note that the above gross revenue calculation does **not** include credit instruments.

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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, **must not be deducted** as losses from winnings at any game except a slot machine. The amount of cash paid to fund periodic payments **may be deducted** as losses from winnings for any game. 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. 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;
- c. Cash taken in fraudulent acts perpetrated against a licensee for which the licensee is not reimbursed;
- d. 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;
- e. Uncollected baccarat commissions; or
- 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.

**INTER-CASINO LINKED SYSTEMS**

Inter-casino linked table games systems are simply table games 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 table game. Drop is still the total amount of money, chips and tokens contained in the table drop boxes; fills are all the fills made to the table trays; and payouts are 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

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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:

<u>Item</u>	<u>Proper Accounting Treatment</u>
Match Play (e.g., wager \$5 and receive a \$10 bet)	Only cash received in drop, deduct all payouts
Discount Wagering (Negotiable)	If distinguishable, discounted \$ amount in drop, deduct all payouts →
Discount Wagering (Nonnegotiable)	Discounted \$ amount in drop, deduct all payouts →
Free Play Wagering (Negotiable)	If distinguishable, \$0 in drop, deduct all payouts →
Free Play Wagering (Nonnegotiable)	\$0 in drop, deduct all payouts →
Promotional Activity Reimbursed by a Third Party	Total \$ amount wagered in drop, deduct all payouts
Tournaments/Contests/Drawings	No effect on revenue if not part of an inter-casino linked system
Tournaments which include elements of a normal wager	Total \$ amount WAGERED in drop, deduct payouts but not tournament prizes**

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

\*\* Pursuant to **NRS 463.408**, tables placed on the floor specifically for this type of tournament are subject to a \$14 per table, per day Special Events permit fee, whereas existing tables that are used for this type of tournament are subject to all quarterly and annual flat fees.

**STATISTICAL ANALYSIS**

A statistical analysis of table games performance is done to detect any possible problem areas. A win/drop percentage for table games is the relationship of a patron's chip buy-in (made with cash or marker) and cash wagers dropped in the drop box to what the casino wins back from the patron through table play. If markers are immediately transferred to the cage after issuance, with no payments allowed in the pit, the drop figure will contain the dollar amount of cash wagers dropped in the drop box plus cash and markers received by the casino in exchange for chips.

In Nevada, however, customers can pay off markers in full or in part in the pit, and payments can be made with cash or chips. As a result, cash drop may be overstated due to cash payments for markers, and the marker issues may be overstated because additional markers may have been

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issued in exchange for other markers during a consolidation or during marker partial payments. The concepts of **statistical win** and **statistical drop** were developed to eliminate these overstatements.

Statistical win is simply table gross revenue as defined by **Regulation 6.110** (which is basically **cash** win) plus marker credit slips. Marker credit slips are added to win because, in effect, they represent a portion of the table game's ending inventory (a component of the win computation) which is not otherwise reflected in revenue computed in accordance with **Regulation 6.110**.

Statistical drop is equal to cash drop, as defined by **Regulation 1.095**, plus marker credits plus pit marker payments in chips. Statistical drop should only reflect pit credit issued for the purchase of chips, which can be calculated as follows:

$$\begin{array}{rcccccc} \text{Marker} & & & & & & \\ \text{credit slips} & + & \text{Pit marker} & + & \text{Pit marker} & = & \text{Pit credit} \\ & & \text{payments in chips} & & \text{payments in cash} & & \text{issued for chips} \end{array}$$

Cash drop, as defined by **Regulation 1.095**, already contains pit marker payments in cash. Therefore, for statistical drop to reflect all pit credit issued for chips, it is necessary to increase cash drop by marker credit slips and pit marker payments in chips.

Licensees report statistical information to the Board on the "Monthly Gross Revenue Statistical Report" (NGC-31). This form requires (by type of table game) pit credit issues, pit credit payments in chips, pit credit payments in cash, and drop as defined by **Regulation 1.095**.

**IN-HOUSE PROGRESSIVE PAYOFF SCHEDULES**

**Regulation 5.110** addresses in-house progressive payoff schedules. 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 a similar game but this must also be documented. Progressive payoff schedules may be given away through a concluding contest, tournament or promotion if conducted with a game similar to the game from which the amounts are distributed. 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.

# **CARD GAMES REVENUE**

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**CARD GAMES TERMINOLOGY**

The following terminology is applicable to card games revenue:

<b>Ante</b>	A player's initial wager or predetermined contribution to the pot prior to the dealing of the hand.
<b>Bad beat pots or pools</b>	Promotional progressive pots and pools which are contributed to by poker patrons and distributed back to poker patrons based upon the occurrence of a predetermined event, such as a losing hand containing a four-of-a-kind or some other predetermined combination of cards.
<b>Buy-in</b>	The purchase of chips so that a patron may participate in a game.
<b>Call</b>	A wager made in an amount equal to the immediately preceding wager.
<b>Card game shill</b>	An employee engaged and financed by the licensee as a player for the purpose of starting and/or maintaining a sufficient number of players in a card game. The shill does not keep his winnings.
<b>Card room bank</b>	An imprest fund which is a part of and accountable to the licensee's casino cage or bankroll, but is maintained in the card room exclusively for the purposes of the issuance and receipt of shill funds, the maintenance of card table banks used in card games, and the purchase and redemption of chips by players.
<b>Card table bank</b>	An imprest inventory of cash and chips physically located in the table tray on the card table and controlled by the licensee through accountability established with the card room bank. Card table banks are only to be used for the purposes of making change or handling player buy-ins.
<b>Check</b>	To waive the right to initiate the wagering, but to retain the right to call or raise after all the other players have either wagered or folded.
<b>Hand</b>	One game in a series, one deal in a card game, or the cards held by a player.
<b>Pot</b>	The total amount anted and wagered by players during a hand.
<b>Proposition player</b>	A person paid a fixed sum by the licensee for the specific purpose of playing in a card game who uses his own funds and who retains his winnings and absorbs his losses.
<b>Raise</b>	A wager made in an amount greater than the immediately preceding wager.

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<b>Rake-off</b>	A percentage of the pot which may be taken by the licensee for maintaining or dealing the game. Rake-offs cannot exceed 10% of all sums wagered in the hand ( <b>Regulation 23.050</b> ).
<b>Stake</b>	The funds with which a player enters a game.
<b>Stakes player</b>	A person financed by the licensee to participate in a game under an arrangement or understanding whereby such person is entitled to retain all or any portion of his winnings. <b>Regulation 23.070(1)</b> prohibits the use of stakes players by a licensee.
<b>Table tray</b>	A receptacle used to hold the card table bank.
<b>Time buy-in</b>	A charge to a player, determined on a time basis, by the licensee for the right to participate in a game.

**DEPARTMENTAL ORGANIZATION**

A card games shift is generally staffed by the following people:

1. The **casino manager** (sometimes known as the property shift manager or as "#1") has ultimate authority over the entire casino during his shift.
2. The **card room supervisor/shift supervisor** has authority over the poker games in the card room for one shift. This person authorizes transfers between the table banks and the main card room bank or casino cage. He also gives written approval for the issuance of shill funds.
3. The **dealer** is responsible for his table bank and to insure any compensation received (rake-off, time buy-in, etc.) from patrons for the right to play is deposited directly into the drop box.
4. **Shills and proposition players** which are defined under the card games definition.

**GENERAL**

**Regulation 6.110(4)** states that card games gross revenue equals all money received by the licensee as compensation for conducting the game in which the licensee is not a party to a wager. Card games include, but are not limited to, poker, bridge, whist, solo and panguingui.

Card games revenue is defined as licensee's compensation for running the game (which is usually in the form of a rake or buy-in). There are no associated payouts in a card game because the licensee is not party to a wager. Also, free play or promotional items should not affect card games revenue. Therefore, the win/drop statistics should be 100% for any card game. Each table's drop box is required to be permanently marked with the game, shift, and a number



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corresponding to a permanent number on the table. Card games revenue flows from the drop boxes, to the count room, to the accounting department and ultimately to the tax reports.

It is important for the auditor to understand how card game revenues flow through a licensee's operations (i.e., so that the audit can be properly planned and performed). The flow of card games revenue starts at the gaming table. For example, patrons buy in at the table (they exchange cash for chips). When a cash buy-in occurs, the cash is displayed in public view on the table, the dealer will give the patron chips from the table tray and then the cash is placed into the table tray. At the conclusion of a hand of play, the dealer removes the rake from the pot and deposits it into the drop box.

During a shift, cash may be sent from a table tray to the card room bank in exchange for an equal amount of chips or, if a waiver of **Regulation 23.045** has been received to utilize the casino cage in lieu of a card room bank, cash may be exchanged for chips with the casino cage. At least once per shift, the main card room bank is counted and reconciled, and the table trays (i.e., the inventory of cash and chips) are counted by the dealer and a supervisor. The collection of the drop boxes and the count of the contents are the same as is applicable to the pit drop boxes. The drop boxes are removed from the tables and transported to the soft count room. The soft count team counts the funds in the drop boxes. Before the count team leaves the count room, all drop figures are recorded on a count sheet. The cage verifies the drop amount and takes it into its accountability. The soft count team delivers all count documentation to the accounting department where accounting personnel audit the documentation. Card games revenue 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 tax report.

The above example is meant to provide the auditor with a general overview of how card game revenues flow through a licensee's operations. Therefore, it is important that the auditor read the internal control system. This system describes in significant detail how revenue flows through a licensee's operations.

**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:

<u>Item</u>	<u>Proper Accounting Treatment</u>
Buy-In Coupons (\$22 for \$20)	No effect on revenue
Tournaments played with negotiable chips and rake is taken	Rake is taxable
Tournaments played with nonnegotiable chips/Contests/Drawings	No effect on revenue
Prizes (e.g., \$100 prize for High Hand of the Week)	No effect on revenue

**PROMOTIONAL POTS AND POOLS**

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There are two types of promotional pots and pools. One type is wholly sponsored by the licensee. Generally, once an amount is posted, it must remain until it is won in accordance with the posted rules. The second type is a progressive pool, is contributed to by poker patrons and generally is distributed back to poker patrons based on the occurrence of a predetermined event. However, **Regulation 5.110(5)(d)** allows the distribution of a progressive payoff schedule through a concluding contest, tournament or promotion. The “give away” must be conducted on the same game that generated the progressive. Therefore, a contest used to give away a seven-card hold'em pool must be directly related to the seven-card hold'em game. If a promotional pot or pool is noted when performing card games audit procedures, the cash or prizes awarded are not deductible pursuant to **Regulation 6.110(4) and NRS 463.0161** since the regulation does not allow for deductions from revenue for card games and the statute specifies that prizes from such tournaments/contests are not deductible.

**HOLIDAYS AND SPECIAL EVENTS**

Pursuant to **NRS 463.408**, a licensee may pay a flat fee per table, per day to increase the number of tables during holidays or special events or set up a special area for gaming. The licensee must file an application with the Board and pay the fee. A permit is then issued. The fees paid for this purpose are in lieu of the fees required under **NRS 463.380** (annual fees), **463.383** (quarterly fees based on number of games) and **463.390** (quarterly county fees). The auditor should be alert to situations where the number of tables used was higher than what was approved or the tables were not removed when the permit expired. **NRS 463.408** does not apply to tournaments and contests where tables can be installed with no fees. If it is determined that real money was used during these tournaments and gross gaming revenue was generated, then the tables are subject to the full flat fees.

**STATISTICAL ANALYSIS**

Since the win/drop statistics should be 100% for any card game, when reconciling supporting documents to the NGC tax reports this should be verified. Analytical procedures for card games should focus on trend analysis and reasonableness tests. For example, the auditor should look for trends in drop (e.g., is drop consistent throughout the audit period?).

# **KENO REVENUE**

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**KENO GAME TERMINOLOGY**

The following terminology is applicable to keno game revenue:

<b>Add-ticket</b>	A ticket used to register the bet of other tickets.
<b>Back-up Power Supply</b>	If an electrical failure should occur, the computer should have a power supply to keep running. Not necessarily a generator, it's usually called a UPS (uninterruptable power supply).
<b>Ball check</b>	A ticket on which is noted the numerical sequence of the drawn winning numbers (also known as the "run down").
<b>Bank</b>	The game's operating funds; money.
<b>Blower</b>	A device used in a keno game to mix the numbered balls and blow them individually into the rabbit ears or other device when drawn.
<b>Cage</b>	The receptacle from which the balls are drawn (also known as a "goose" or "fish bowl").
<b>Caller</b>	The person who calls the numbers as the balls are drawn.
<b>Catch</b>	The amount of winning numbers that appear within the marked numbers of a ticket.
<b>Close</b>	The time during the drawing of each game after which no ticket wagers are taken.
<b>Combination ticket</b>	A ticket with a combination of wagers on varying amounts of spots.
<b>Condition</b>	The manner in which a ticket wager is made. A ticket is conditioned to indicate how the wager is applied.
<b>Desk</b>	The area in which the wagers of record (i.e., inside tickets) are kept.
<b>Deskman</b>	A person who authorizes payment of winning tickets and verifies payouts.
<b>Duplicate ticket</b>	The player's ticket copy (also known as the "outside ticket").
<b>Exception Report</b>	A report created by a computer to list all the unusual happenings during the shift. Exception reports will include items like voided tickets, password changes, changes in system parameters, changes in data files, etc.

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<b>Flashboard</b>	A numbered board showing the results of each drawing by lighting the winning numbers.
<b>Game</b>	A sequence of events beginning with the placing of wagers and ending with the payment of winning wagers, identified by a game number (also known as a “race”).
<b>Goose</b>	The receptacle from which the balls are drawn (also known as a “cage”).
<b>Hold</b>	The win/write (total amount wagered) percentage.
<b>Inside ticket</b>	The customer's presented ticket marked with their selection of numbers and amount wagered.
<b>Keno audit</b>	A function performed by an independent party, normally the accounting department, which includes totaling write and payouts and checking compliance with established payout procedures.
<b>Live ticket</b>	Either copy of a played ticket before the results are known or, in the case of a win, before the win is paid.
<b>Lottery</b>	<b>NRS 462.105.</b> 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.
<b>Master panel</b>	An electrical component containing plug-ins and switches utilized in the operation of a keno game. It provides for many automatic functions that limit the possibility of tampering.
<b>Multi-Race Keno</b>	A patron plays the same ticket for a series of consecutive races. Only one inside ticket is generated with a notation on the ticket as to the race numbers for which the ticket is being played.
<b>Off-line Storage</b>	Computerized storage media not on-line with the system (e.g., diskettes, magnetic tapes, computer printout, etc.).
<b>Open</b>	The time between drawings during which tickets are written.

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<b>Original ticket</b>	The ticket submitted for play by the player. This becomes the "inside ticket" when submitted to the keno writer.
<b>Outstation</b>	An annex where tickets are written. This area is separate from where the game is being called and is for the convenience of the patrons and keno runners.
<b>Outside ticket</b>	A duplicate copy of a player's wager. This ticket is prepared by a writer and is given to the customer as a receipt upon which is marked the customer's selection of numbers and amount wagered (also known as a "duplicate ticket").
<b>Paid-outs</b>	The total amount of money paid to players holding winning combinations of numbers.
<b>Progressive Keno</b>	A keno game in which the payoff schedule increases by a predetermined amount for each game without a winner. The amount of the payoff schedule must be posted.
<b>Rabbit ears</b>	A device, generally V shaped, that holds the numbered balls drawn during a game so that the numbers are visible to players and employees.
<b>Race</b>	A sequence of events beginning with the placing of wagers and ending with the payment of winning wagers, identified by a race number (also known as a "game").
<b>Rack</b>	A receptacle for holding the drawn balls. This device is rarely used as an alternative to using "rabbit ears".
<b>Random Number Generator (RNG)</b>	Device used to randomly select the keno numbers. If the generator is an integral part of the system, the entire system and the RNG must be approved as a "gaming device" by the Board and Commission.
<b>Restricted Copy</b>	This is not the printer in the keno department. There should be either a printer located in a restricted area away from keno personnel, or the printer in the keno department should be locked and keno personnel should not be able to access, or there should be some form of storage media that is not accessible to keno personnel.
<b>Run-down</b>	A blank ticket on which is noted the numerical sequence of the drawn winning numbers (also known as the "ball check").
<b>Runner</b>	One who, as a convenience for customers in the casino and restaurant areas, carries tickets, wagers and wins between players and the game.
<b>Sleeper</b>	A winning ticket not presented for payment.

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<b>Source Code</b>	Actual computer programs in readable format.
<b>Way Tickets</b>	A ticket with the spots so grouped as to provide two or more arrangements that are wagered on.
<b>Write</b>	The total dollar amount collected for all tickets written for a specified shift or period.
<b>Writer</b>	A person who writes keno tickets and makes payouts for the establishment.

**TERMINOLOGY SPECIFIC TO MANUAL KENO GAMES**

The following definitions are applicable for manual keno games:

<b>Book</b>	The inside tickets after they are bound.
<b>Brush game</b>	Another term used to describe a microfilm system. Tickets were originally marked with a brush, then in later years with felt-tip pens.
<b>Closer</b>	A blank ticket on which is stamped a serial number at the close of each game. In many cases, "Game Closed" is also noted on this ticket.
<b>Draw ticket</b>	A blank keno ticket whose numbers are punched out when balls are drawn for the game. By placing the draw ticket over a player's ticket, the winning numbers can be easily identified.
<b>Inside ticket</b>	The keno ticket retained by the house upon which the customer's selection of numbers and amount wagered are marked. It is the wager of record and, as such, payouts are made according to this ticket.
<b>Locked box</b>	A receptacle containing unused two-part keno tickets and the second copy of tickets after they have been written.
<b>Microfilmer</b>	A device utilized to film inside tickets in a microfilm or brush keno system.
<b>Opener</b>	A blank ticket on which is stamped a serial number prior to writing tickets for each game. Each writer makes an opener and the serial number of all tickets written on a game will follow the number on these numbers. In many cases, "Game Open" is also noted on this ticket.
<b>Punch</b>	A device used to make holes in draw tickets according to the balls selected.

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**Writer machine**      A locked device used by a writer to prepare outside and carbon copy keno tickets. The machine is locked and cannot be operated while a game is being called and balls are being selected.

**GENERAL**

**Regulation 6.110(3)** states that keno (a "counter game") revenue is defined as the money accepted on events or games that occur during the month or will occur in subsequent months, less money paid out during the month to patrons on winning wagers.

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, drawing, 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, **must not be deducted** as losses from winnings at any game except 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-linked Casino Systems" section for a further discussion of deductions related to these systems.

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

- Counterfeit facsimiles of money, chips, tokens, wagering instruments or wagering credits.
- 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.
- Cash taken in fraudulent acts perpetrated against a licensee for which the licensee is not reimbursed.
- 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.
- Cash provide 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 keno revenue flows through a licensee's operations (i.e., so that the audit can be properly planned and performed). A keno game has a board that contains 80 numbers, of which 20 are randomly selected each game by a blower and rabbit ears or by a Board-approved random number generator. The whole objective of keno, at



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least as far as the patron is concerned, is to correctly predict some of the numbers that will be included in the 20 that are selected. There are numerous wagering options available to the patron. Obviously, the payout on a keno wager depends on the difficulty of the bet. For example, a winning 2-spot ticket will result in a smaller payout than a winning 10-spot ticket. The flow of keno revenue for computerized keno, which is much more prevalent than manual keno, starts when a patron presents cash and an original keno ticket (i.e., the ticket the patron prepared) to the keno writer. The writer inputs the patron's selected numbers in the system and gives the patron a computerized printed ticket and places the cash in the cash drawer. If the patron's ticket is a winner, he cashes it out with the writer. The keno system records all the wagering and payout activity that takes place during the shift, usually on a computer diskette that is restricted from keno personnel. The accounting department performs a daily audit of the keno department using reports (e.g., write and payout reports, exception reports, etc.) it prints from the restricted diskette, and other appropriate keno documentation (e.g., the keno tickets). The computerized keno reports are the source for recording keno revenue in the revenue journal and general ledger. Ultimately, the licensee uses the accounting records (e.g., the revenue journal or general ledger) to prepare the tax reports.

The above example is very simplified and is only meant to provide the auditor with a general overview of how keno revenue flows through a casino's operations. Therefore, 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.

There are four basic methods of recording and controlling a keno game:

1. Microfilm
2. Raffsco
3. Videotape
4. Computerized

Currently, only computerized systems are in use.

The objective in all of these methods is to control the inside tickets as to not allow a ticket for a game to be written, altered or destroyed after the results of a game are known. This is accomplished as follows. The microfilm and videotape systems film tickets before the keno balls are drawn. The Raffsco system creates a locked box copy of tickets as they are written. A computerized system involves inputting the tickets written into the computer system prior to the outcome of the keno game. If the licensee's maximum payout on a game will exceed \$250,000, the licensee must operate a computerized system pursuant to **Regulation 5.025** and receive prior Board approval.

The licensee may offer a multi-race keno game. To have a multi-race keno game the procedures must be included in the internal control system. The licensee may also offer progressive keno games. Such games require prior Board approval.

Since the MICS require that certain keno source documents must only be maintained for at least seven days, the audit of keno revenue usually does not involve all the source documents of keno transactions (i.e., tickets) except for those winning tickets for \$1,500 and over. Audit procedures should be performed for a recent day, before the documents are destroyed, that require the examination of all tickets written, non-winning tickets and winning tickets less than \$1,500.

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**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:

<u>Item</u>	<u>Proper Accounting Treatment</u>
Match Play/Discount Wagering	Only cash received in write, deduct all payouts
Free Play Wagering (Negotiable)	\$0 write for free play, deduct all payouts ➔
Free Play Wagering (Nonnegotiable)	\$0 write for free play, deduct all payouts ➔
Non-Cash Prizes	Deduct cost to licensee of non-cash prizes awarded for winning wagers
Promotional Activity Reimbursed by a Third Party	Total \$ amount in write, deduct all payouts
Tournaments/Contests/Drawings	No effect on revenue if not part of an inter-casino linked system
Tournaments which include elements of a normal wager	Total \$ amount of WAGER in write, deduct all payouts, but not tournament prizes
Appeasement Payouts (Payments made on non-winning tickets in response to customer complaints)	NOT deductible

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

**IN-HOUSE PROGRESSIVE PAYOFF SCHEDULES**

**Regulation 5.110** addresses in-house progressive payoff schedules. 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 a similar game but this must also be documented. Progressive payoff schedules may be given away through a concluding contest, tournament or promotion if conducted with a game similar to the game from which the amounts are distributed. 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.

**INTER-CASINO LINKED SYSTEMS**

Inter-casino linked keno systems are simply keno games at multiple locations which are linked to a common non-progressive or progressive jackpot or multiple-location player tracking/bonusing

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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 keno game. Write is still the total dollar amount collected for all tickets written for a specified shift or period, and payouts are 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.

# **BINGO REVENUE**

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**BINGO REVENUE**

**BINGO GAMES TERMINOLOGY**

The following terminology is applicable to bingo games revenue:

<b>Bingo agent</b>	An employee who collects money from patrons for payment of bingo boards.
<b>Bingo board</b>	The instrument purchased and played by the customer; sold by bingo agents or through the bingo cage.
<b>Blower</b>	Piece of equipment which contains the bingo balls before they are drawn during the course of the game.
<b>Caller of the game</b>	Employee who calls to the customers the numbers of the balls as they are being drawn from the blower.
<b>Caller's payout sheet</b>	Document prepared by caller of the game which contains same information as indicated on the cashier's payout sheet.
<b>Cashier's payout sheet</b>	Document prepared by an individual in the bingo cage which contains payouts for individual games of each session, by type of board played.
<b>Continuous bingo</b>	Where a customer pays a small amount for each bingo game played and there is no limit as to the number of games played consecutively. Bingo agents are usually used to collect money from patrons.
<b>Coverall game</b>	Specific type of game in which customer must cover all numbers on the board, usually under a specific amount of called numbers, in order to win.
<b>Daily bingo summary</b>	Document prepared by the accounting department showing the results of all sessions' activity. Such information normally includes, by session, total write, total payouts, net win, and overs/shorts based on cash turn-in.
<b>Letter "X" game</b>	Specific type of game in which customer must "bingo" with a letter "X" in order to win.

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<b>Lottery</b>	<b>NRS 462.105.</b> 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.
<b>Random Number Generator (RNG)</b>	Device used to randomly select bingo numbers. The RNG is used in place of a blower. This type of equipment alone is considered associated equipment and, when connected to a bingo game, is considered to be a gaming device and must be approved by the Board and Commission. Additionally, there are MICS that specifically relate to the use of random number generators.
<b>Session (or party) bingo</b>	Where a customer purchases bingo boards for a set number of bingo games (i.e., for a session).
<b>Session summary recap</b>	Document prepared by bingo supervisor at the end of the session which summarizes the results of the session. Normally includes beginning and ending board inventory, cash turn-in payouts, and net win/loss.

**GENERAL**

Bingo is a counter game which uses the draw of balls with numbers and letters to record the balls selected. A game begins with 75 balls in the blower, and balls are drawn until one player completes a predetermined letter/number pattern on a bingo card.

**Regulation 6.110(3)** states that for a counter game such as bingo, revenue is computed as the money accepted by the licensee on events or games that occur during the month, less money paid out during the month to patrons on winning wagers.

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, drawing, 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, **must not be deducted** as losses from winnings at any game except 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 who provides a patron with additional play at bingo as the result of an

initial wager **may deduct** as losses from winnings all money or tokens paid directly to that patron as a result of such additional play.

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Pursuant to **NRS 463.0161(2)** the term “gross revenue” does not include:

- Counterfeit facsimiles of money, chips, tokens, wagering instruments or wagering credits.
- 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.
- Cash taken in fraudulent acts perpetrated against a licensee for which the licensee is not reimbursed.
- 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.
- 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 bingo revenue flows through a casino’s operations (i.e., so that the audit can be properly planned and performed). Therefore, it is important that the auditor read the casino’s internal control system, submitted to the Board, which describes in significant detail how bingo revenue flows through a casino’s operations.

**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:

<u>Item</u>	<u>Proper Accounting Treatment</u>
Match Play/Discount Wagering	Only cash received in bingo card sales, deduct all payouts
Free Play Wagering (Negotiable)	\$0 in bingo card sales, deduct all payouts ➔
Free Play Wagering (Nonnegotiable)	\$0 in bingo card sales, deduct all payouts ➔
Non-Cash Prizes	Total \$ amount in bingo card sales, deduct cost of prizes
Promotional Activity Reimbursed by a Third Party	Total \$ amount in bingo card sales, deduct all payouts
Tournaments/Contests/Drawings	No effect on revenue if not part of an inter-casino linked system
Tournaments which include elements of a normal wager	Total \$ amount in bingo card sales, deduct all payouts, but <b>NOT</b> tournament prizes
Appeasement Payouts (Payments made on	<b>NOT</b> deductible

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non-winning tickets in response to customer complaints)	
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→ Use of this tax treatment is allowable only if specific record keeping requirements are adhered to.

**IN-HOUSE PROGRESSIVE PAYOFF SCHEDULES**

**Regulation 5.110** addresses in-house progressive payoff schedules. 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 a similar game but this must also be documented. Progressive payoff schedules may be given away through a concluding contest, tournament or promotion if conducted with a game similar to the game from which the amounts are distributed. 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.

**INTER-CASINO LINKED SYSTEMS**

Inter-casino linked bingo systems are simply bingo games 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 bingo game. Write is still the total dollar amount accepted by the casino on games that occur during the month, and 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.

**TYPES OF CONTROLS**

Sales of bingo cards can be handled in essentially one of two ways:

1. Patrons may purchase bingo cards through a bingo cage before the session starts; or



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2. Patrons may purchase bingo cards for a game from bingo agents during the session (i.e., continuous bingo).

The MICS outline the specific controls that licensees must follow for both ways.

When a bingo cage is used, bingo sales would generally be measured by the change in the inventory of cards. When a bingo agent collects money from the patrons, procedures must be established to ensure that money (wagers) collected from the patrons is recorded as sales. One way to accomplish this is to have a second person independently calculate sales by game and compare this calculation to the amount previously recorded by the bingo agent.

**COMPUTERIZED BINGO**

Typically, bingo is played using regular bingo cards which are made of cardboard or paper. However, some licensees use electronic devices (sometimes referred to as “cardminders”) which store the information normally shown on the face of the cards. There are electronic cards with bar codes which are read by the devices and some where the licensee downloads the card information into the bingo device used by the patron. The degree of automation varies by type of system. However, regardless of the extent of automation, all manual procedures required by the MICS must still be performed. The bingo device is merely a convenience to the patron in that entering a called number once will post that number to all bingo boards, and the device will alert the player of a bingo. The device also allows the patron to play numerous boards that could not all be played manually.

# **RACE & SPORTS REVENUE**

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**TERMINOLOGY**

The following terminology is applicable to race and sports book revenue:

<b>Across the board</b>	To bet a combination win, place and show ticket on one horse.
<b>Action wager, no action wager</b>	Types of baseball wagers which refer to pitchers. An action bet is when the patron makes a wager which is effective regardless of pitching changes. A no action bet is when the patron's wager is only effective if the scheduled pitcher actually pitches the game.
<b>Administrative terminal</b>	This computer terminal permits the user to perform the duties of setting up events, changing event information including starting times, changing point spreads, inputting results, correcting wrong results, etc. Access to the administrative terminal can be merely restricted by password access to a menu or additionally by the physical ability of a terminal to conduct such functions.
<b>Associated equipment</b>	Equipment which has gaming applications and is required to be approved by the Board for use. Associated equipment is defined by <b>NRS 463.0136</b> .
<b>Betting slips or tickets</b>	Any written and permanent form of memoranda whereby the wager is recorded.
<b>Book</b>	A race or sports book that sets odds and accepts wagers on the outcome of races or sporting events.
<b>Book Wagering Report</b>	A form used to record noncash, nonpari-mutuel wagers in excess of \$10,000 and associated patron information pursuant to <b>Regulation 22.061</b> for submission to the Board.
<b>Bookmaker</b>	Any person who accepts and pays wagers on the outcome of any given event.
<b>Calculated winners</b>	Common term for the amount of winning wagers based upon the results, regardless of whether or not tickets are paid out to a customer.
<b>Cash</b>	Coin and currency that circulates, and is customarily used and accepted as money, in the issuing nation.
<b>Cashless Wagering System</b>	<b>NRS 463.014(2)</b> . A method of wagering and accounting used in a race book or sports pool in which the validity and value of a wagering instrument are determined, monitored and retained on a computer that maintains a record of each transaction involving the wagering instrument and is operated and maintained by a licensee.

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<b>Cashier terminal</b>	This terminal (or menu) permits the user to pay off on winning wagers from the customer copy. Tickets are graded by the computer after results have been input. The terminal authorizes the proper payout after input of the ticket number. Payment will not be authorized on previously paid tickets.
<b>Chalk</b>	The favorite.
<b>Circled game</b>	A game in which the sports book reduces its normal betting limit usually because of an injury or weather condition.
<b>Computerized bookmaking system</b>	A system whereby wagers are recorded, results entered, winners determined and payouts recorded using computer hardware and software. All books are required to use computerized bookmaking systems per <b>Regulation 22.100</b> .
<b>Communications technology</b>	Means the methods used and the components employed to facilitate the transmission of information including, but not limited to, transmission of information and reception systems based on wire, cable, radio, microwave, light, optics, or computer data networks. This term does not include the Internet (i.e., using the Internet to place a wager is prohibited).
<b>Cover</b>	When the favorite wins by more than the point spread.
<b>CPU (Central Processing Unit)</b>	This is the computer hardware which processes the data and operates the system programs.
<b>Daily double</b>	Usually the first two races of the day. Bettor must pick the winner in each race, and one wager covers both horses.
<b>Dead heat</b>	Finish in which two or more horses reach the finish line simultaneously.
<b>Decoders</b>	Decoders are electronic boxes used by licensees to unscramble the encoded video signals originating from race tracks via satellite (i.e., so that the licensee can show the race to its patrons in the race book). These devices are similar to the cable boxes that home owners are supplied by their cable company to unscramble the cable television signal.
<b>Dime</b>	\$1,000.
<b>Dime line</b>	A money line (no point spread involved) in which the vigorish or bookmaker's commission amounts to 10 percent.

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<b>Disseminator</b>	Any person who, for compensation, supplies or disseminates within the State of Nevada any information or data to any person maintaining or operating a race book. The term does not include bona fide news media or a public utility operating within the State of Nevada and regulated by the Public Service Commission or federal regulatory agencies. <b>Regulations 20 and 21</b> control the operation of disseminators.
<b>Dog</b>	The underdog, or the team getting points.
<b>Dollar</b>	\$100.
<b>Exacta</b>	Betting situation in which bettor must pick the horses who finish first and second in one race (in the exact order of finish).
<b>Federal wagering tax</b>	A federal tax of .25% on all wagers made at race and sports books. The tax is usually a part of the wager and absorbed by the licensee. Thus, it cannot be deducted from gross gaming revenue.
<b>Future bet</b>	A wager made on the outcome of a series (or season) of sports events or a wager on a major horse race for which the odds are set more than one day in advance of the race (e.g., Super Bowl wager made in September, World Series wager made in May, or a wager on the Kentucky Derby two weeks before the race).
<b>Hedging</b>	Betting the opposite team or side of your original bet in order to try to win both sides or to reduce the risk of losing the original wager (also known as “middling”).
<b>Hold bet</b>	A wager whose actual placement is dependent upon the satisfaction of some future condition. The normal circumstance of a hold bet would entail the acceptance of the cash for a wager at a certain point in time with the wager eventually being consummated and the ticket written at a time when a prespecified condition is met (e.g., the point spread reaching a certain level). <u>Acceptance of hold bets is prohibited by Regulation 22.060.</u>
<b>Hook</b>	Half point.

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- Information service** A person who sells and provides information to a licensed sports pool that is used primarily to aid the placing of wagers on events of any kind. The term includes, without limitation, a person who sells and provides any:
1. Line, point spread or odds;
  2. Information, advice or consultation considered by a licensee in establishing or setting any line, point spread or odds; or
  3. Advice, estimate or prediction regarding the outcome of an event.
- The term does not include a newspaper or magazine of general circulation or a television or radio service or broadcast if the primary purpose of the newspaper, magazine or television or radio service or broadcast is other than to aid the placing of wagers on events of any kind.
- Internet** The international computer network of both Federal and non-Federal interoperable packet switched data networks.
- Layoff bet** A wager by one licensed race or sports book with another to offset an excessive accumulation of customer wagers on one side of a particular race or event, thereby avoiding potentially large losses. A licensee may accept a layoff wager at “their own” pari-mutuel window. The commission from the wager is included in pari-mutuel revenue. The layoff wager and any resulting payout, as with any layoff wager, is not included in gross revenue of the book making the wager. Layoff wagers may not be made into intrastate pari-mutuel pools.
- Line** The current odds or point spread on an event.
- Listed patron** A known patron for whom a book has received approval from the chairman to exclude that patron’s noncash, nonpari-mutuel wagers in excess of \$10,000 from the reporting requirements of **Regulation 22.061**.
- Live broadcast** A secure television transmission (both audio and video) of a race used by a book to determine winners and payoffs, which is provided by a disseminator to a user for a fee. If, as in the case of pari-mutuel wagering, such transmission is not used for payoff purposes it is referred to as a "live audio visual signal”.
- Lock** A term meaning can't lose.

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<b>Lottery</b>	<b>NRS 462.105.</b> 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.
<b>Messenger</b>	A person who places a race book or sports pool wager for the benefit of another for compensation.
<b>Middled or middling</b>	Refers to a method of wagering where patrons (usually professional gamblers) attempt to wager on both sides of a game at different books or the same book at different times, with the hope that the final score is between two different point spreads thereby allowing him to win both bets.
<b>Modified accrual basis of accounting</b>	A basis of tax reporting (as defined by <b>Regulation 6.110(3)(b)</b> ) where the licensee reports as gross revenue the money it accepts on events or games that occur during the month plus money, not previously included in gross revenue, that was accepted by the licensee in previous months on events or games occurring in the month, less money paid out during the month to patrons on winning wagers.
<b>Morning line odds</b>	The odds set by the race track prior to the commencement of wagering. The final odds reflect the actual wagers made by track patrons.
<b>Money line</b>	Quantification of a point spread into odds for a patron's wager in lieu of a handicap (point spread) for a given participation. For example: 49ers - \$140; Redskins + \$130. 49ers bettors would bet \$140 to win \$100 (total of \$240 paid), while Redskins bettors would win \$130 for every \$100 they bet (total of \$230 paid) if the Redskins won.
<b>Monitor</b>	Refers to the screen (like a television) on which the information appears.
<b>Nickel</b>	\$500.
<b>Nickel line</b>	A money line in which the vigorish amounts to 5 percent.

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<b>Noncash wager</b>	Any bet or portion of a bet not made with cash. The term includes, but is not limited to, a bet made with chips, tokens, unpaid winning tickets, funds in a wagering account, extensions of credit, negotiable instruments, electronic or other funds transfer, or other representatives of value approved by the Board.
<b>Nonpari-mutuel wager</b>	A race book or sports pool wager other than one offered to be included in a common pari-mutuel pool.
<b>Object code</b>	Computer compiles source code (program language) into object code which is in computer language that is virtually indecipherable by people.
<b>Odds on favorite</b>	A horse, team or individual so favored by the public that the odds are less than even.
<b>Odds maker</b>	Any person who determines the odds for the purpose of making and accepting wagers. Their objective is not to predict the probable outcome of any given event, but rather to predict the point spread or money line which will result in equal wagering on each side thereby allowing the book to win its vigorish.
<b>Off time</b>	The actual time a horse race starts as the horses leave the gate. This time can vary from the same time as post time until several minutes or more after the post time. In sports there is usually minimal concern when wagers are accepted up to ten minutes after the starting time, while in horse races wagering even one minute after the off time could be fraudulent as the results might be known.
<b>Off the board</b>	A game in which the sports book is not taking wagers.
<b>Outside ticket</b>	The ticket given to the customer as a receipt upon which is marked the customer's selection and amount wagered.
<b>Outstation book</b>	A race or sports book, other than a satellite book, that shares the computerized bookmaking system and certain management and administrative functions of a race book operated by an affiliated licensee, as defined by <b>NRS 463.430(3)(b)</b> . Normally the outstations do not have an administrative terminal, do not set up/change events and do not enter results. Separate reports are generated and maintained by location.
<b>Overlay</b>	An advantageous situation for the bettor in which the price on a given wager is greater than the real probability of its success.



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<b>Override</b>	Term used to describe the authorizing of certain transactions by use of a key or password. Accepting wagers after post time and voiding tickets usually require a supervisory override.
<b>Over/under</b>	A bet in which you wager that the total score by both teams will be more or less than the total posted by the sports book.
<b>Pari-mutuel</b>	Betting pools in which the odds are determined by the proportionate amounts bet on the individual entries.
<b>Parlay</b>	Betting situation in which the bettor must pick the winners of two or more sports events or horse races for the bet to be won.
<b>Parlay card</b>	A card which is utilized for wagering on three or more betting propositions. Normally, all selections must win for the patron to be paid.
<b>Parlay card reader</b>	Computerized device that upon inserting the stub portion of the parlay card reads the cards, prints out a regular two-part ticket representing the wager, and ejects the card back out. The ticket becomes a source document.
<b>Past posting</b>	The fraudulent act of wagering on a sports event or horse race after it is in progress, and usually after the event is concluded and the results are known.
<b>Pick'em</b>	The game or contest is rated even with no favorite.
<b>Place</b>	Finishing second in a horse race.
<b>Point spread</b>	A handicap of points determined by the oddsmaker to balance out two unequal opponents. The final score of a game is adjusted by the point spread to determine the betting winner.

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<b>Post time</b>	Used loosely, this term refers to the scheduled starting time of a race. <b>Regulation 22</b> defines the term in two ways. First, for users of live broadcasts and for buyers of audible announcements of post time from disseminators of live broadcasts, post time is the later of either the time when the disseminator transmits an audible announcement of the post time, or when the last entrant enters the gate or, as applicable, the starting gate car begins to move. Second, for a race broadcast live on a national television network for which an agreement has been reached with a disseminator to provide an audible announcement of post time, it is that time when the disseminator, relying upon information obtained independently of the television broadcast, transmits an audible announcement of post time which must be no later than when the last entrant enters the gate or, as applicable, the starting gate car begins to move.
<b>Prohibited wagers</b>	<b>Regulation 22.120</b> prohibits wagers on any amateur sports event held within Nevada; any event held outside the state when any participant in such event represents a public or private institution in Nevada; on the outcome of any election for any public office both within and outside Nevada; on any event regardless of where it is held involving the participation of a professional team whose home field, court, or base is located in Nevada; on any event played in Nevada involving a professional team, if the team's governing body requests such 30 days before the events; and on any event other than racing or athletic sporting events without the prior written approval of the Board Chairman.
<b>Proposition (Prop) bet</b>	A wager offered by the sports book on a particular aspect of the game such as how many touchdown passes will be thrown.
<b>Push</b>	A tie in the betting, normally resulting in a refund of the customer's wager.
<b>Quinella</b>	Bettor picks horses in same race to finish first or second, in either order.
<b>Race event</b>	An event which is held at a track which uses the pari-mutuel system of wagering. The America's Cup Yacht races, track and field events, auto racing, etc. are considered sports events.
<b>Racing meet</b>	A series of scheduled races held at a track or an association of tracks for a specified period.
<b>Round robin</b>	A simple way of wagering several two horse bets in the race book or two or more teams or propositions in the sports book on one ticket. A round robin may occur in the following types of wagers: quinellas, exactas and parlays.

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<b>Satellite book</b>	<p>One licensee operating in another licensed location under a separate license. Results in two licenses being issued to a single building but is two separate and distinct licensees. The authority to have two licensed entities at one location is set forth in <b>NRS 463.245</b>.</p> <p>Race and sports book satellites operate off of the main computer system of the licensee. The satellites do not have administrative terminals, do not set up/change events, do not enter results and may or may not have supervisory authority (ability to accept over the limit wagers and void tickets). Separate reports are generated and maintained by location.</p>
<b>Scratch sheets</b>	<p>Paper documents made available in a book which show updated wagering information, track conditions, additional wagering opportunities, etc. Note that inclusion of a wagering opportunity on a scratch sheet constitutes posting of a wager for purposes of complying with <b>Regulation 22.060(7)</b>.</p>
<b>Show</b>	<p>Finishing third in a horse race.</p>
<b>Side</b>	<p>When one side of a betting proposition wins and the opposite side ties.</p>
<b>Sleeper</b>	<p>A winning ticket which has not been presented for payment.</p>
<b>Source code</b>	<p>This refers to the actual computer program language which controls the operation of the computer system.</p>
<b>Sports event</b>	<p>Any event on which wagering is accepted other than race events held at a track which uses the pari-mutuel system of wagering.</p>
<b>Sports pool or book</b>	<p>Any bookmaker catering to, or specializing in, the acceptance of wagers upon the outcome of professional or amateur athletic sporting events.</p>
<b>Straight up win</b>	<p>An outright victory by a point spread underdog.</p>
<b>Suppressed password</b>	<p>A password allows the user to access a specific menu/function or perform certain transactions. A suppressed password is one where the typed word does not appear on the monitor.</p>
<b>Teaser</b>	<p>A type of wager in football where a patron receives additional points to add to their point spread in exchange for a reduction in payout odds.</p>
<b>Telephone bet</b>	<p>A wager accepted over the telephone. Accepting wagers via telephone from outside the State of Nevada is a violation of both state regulations and federal law. A telephone bet is one form of wagering communication.</p>

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<b>Tout</b>	A service which provides bettors with betting selections for a fee. Term can also refer to a person who gives betting advice.
<b>Track</b>	A facility licensed to operate horse or other racing where pari-mutuel wagering on races is conducted.
<b>User/Buyer</b>	<b>NRS 463.4218</b> defines "user" as an operator of a race book, sports pool or gambling game who is licensed in this state and receives and displays a live broadcast within this state and uses information contained in the broadcast to determine winners of or payoffs on wagers he accepts. <b>Regulation 20.010(2)</b> defines buyer in a similar fashion except that it applies only to information received by means other than a live broadcast (i.e., wire service teletype).
<b>Vigorish</b>	Term used to describe the advantage a book has over its patrons due to the established odds; or, the juice or commission taken out by the sports book for accepting the bet, usually 10 percent.
<b>Wager or bet</b>	Any agreement between a bookmaker and a patron whereby each party places or stakes something of value which may become the sole property of either party as a result of the outcome of an event to which such outcome is uncertain at the time such wager or bet is made.
<b>Wagering communication</b>	The transmission of a wager between a point of origin and a point of reception by aid of a communications technology.
<b>Win</b>	Finish first in a horse race.
<b>Wise guy</b>	A sophisticated bettor.
<b>Writer terminal</b>	This terminal (or menu) permits the user to write wagers restricted by the present information for the events. Large wagers and ticket voiding usually require management approval by an override key, password, or administrative terminal authorization.

**GENERAL**

**Regulation 6.110(3)** states that race and sports book ("counter game") revenue is computed as:

- a. The money accepted by the licensee on events or games that occur during the month or will occur in subsequent months, less money paid out during the month to patrons on winning wagers (i.e., cash basis write and cash basis payout); or

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- b. The money accepted by the licensee on events or games that occur during the month plus money, not previously included in gross revenue, that was accepted by the licensee in previous months on events or games occurring in the month, less money paid out during the month to patrons on winning wagers (i.e., accrual basis write and cash basis payouts).

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. Cash taken in fraudulent acts perpetrated against a licensee for which the licensee is not reimbursed;
- c. 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.

It is important for the auditor to understand how race and sports book (R/S) revenue flows through a licensee’s operations (i.e., so that the audit can be properly planned and performed). The flow of R/S revenue starts with a patron making a wager with a writer. The writer records the wager in the computerized bookmaking system, which generates a ticket (usually a one-part ticket). The writer exchanges the ticket with the patron for cash, chips or tokens. If the patron wins his wager, he cashes out the ticket with the cashier. The payout is recorded in the computer system, and the ticket is branded as being paid.

The accounting department generates the R/S reports every day and uses these reports, along with other documentation (e.g., paid R/S tickets, newspaper R/S results, etc.), to audit the day’s work. R & S revenue (as defined above) 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 tax report.

The above example is meant to provide the auditor with a general overview of how R/S 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.

**BALANCING WAGERING ACTIVITY / LAYOFF BETS**

A legal sports book attempts to “book”, or write, an equal dollar value of wagers on each side of a sporting event. The book wants to make its money by keeping a percentage (called **vigorish**) of the total wagers made on an event, while paying out the rest. On a straight bet, for example, the books set the odds at 11 to 10. This means a patron has to bet \$11 to win \$10. Therefore, if a book accepts wagers totaling \$11,000 on each side of an event (total wagers of \$22,000) it is assured of winning \$1,000. This is because the total payout on the event will be \$21,000 (i.e., \$10,000 in winnings and \$11,000 in wagers).

There are, however, several variables that a sports book must contend with when attempting to balance wagers on events. Generally, sporting events match opponents of differing skill levels (i.e., one team is better than the other). The opponent with the higher level of perceived skill is called the **favorite**, while the one with the lower skill level is called the **underdog**. Obviously, books wouldn’t be in business for long if bettors merely had to pick who was going to win or lose an event (i.e., because the majority of bettors would put their money on the favorite).

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Therefore, books try to provide enough enticement for the wagering activity on an event to be balanced so that they can maintain their vigorish. This enticement comes in the form of either a point spread or a money line.

The **point spread** predicts the amount of points an opponent will win by. Since the goal of the book is to maintain its vigorish, it establishes a point spread which it believes reflects the attitudes and perceptions that bettors have about the outcome of a future event. Therefore, if a book believes that the opinions of bettors are evenly divided on whether the 49ers will beat the Cowboys by 6 points (i.e., half think they will and half think they won't), the book would initially establish the 49ers as a 6 point favorite.

A **money line**, like a point spread, recognizes the differing skill levels of opponents. However, unlike a point spread, a money line doesn't require bettors to consider the number of points the favorite must win by. Instead, bettors who bet on the favorite are given a lower payoff percentage than bettors who bet on the underdog. For example, the money line might be set at - \$1.35 for the favorite and + \$1.20 for the underdog. This means that for every \$13.50 that a patron wagers on the favorite, he has an opportunity of winning \$10. If the favorite wins, the patron will get back \$23.50 (i.e., his original wager plus his winnings). Conversely, for every \$10 that a patron wagers on the underdog, he has an opportunity of winning \$12. If the underdog wins, they patron will get back \$22.

Obviously, setting point spreads and money lines involves expertise; however, it also involves a lot of guess work. In some instances, the guess work required in setting point spreads and money lines which are intended to equally divide the betting community can be materially wrong. As a result, the book may be unable to balance the bets it receives on an event before the event starts. For this reason, a book pays very close attention to the wagering activity an event is receiving. If the activity is too heavy on one side of the event, the book will change the point spread or money line to encourage bettors to wager on the other side.

Adjusting a point spread or money line can, however, create another problem for a book. A book might face getting "middled" on wagers placed on an event. For example, if patrons wager on the San Francisco 49ers when they are a six point favorite (listed as "-6" at the book) over the San Diego Chargers without anyone wagering on the Chargers, the sports book would move the line to -7. This means that for any subsequent wagers on the 49ers to be successful for the patron, the 49ers would have to win by more than seven points.

If the wagering activity on the 49ers as a seven point favorite was still too heavy (i.e., few wagers are being made on the Chargers), the book may move the line to -8. At this point, a patron who earlier wagered on the 49ers at -6 can now wager on the Chargers at +8. If the 49ers won the game 7 - 0, the bettor would win both wagers. Thus, the patron has successfully "middled" his bets.

**NONCASH NONPARI-MUTUEL WAGERS**

Race books and sports pools must comply with specific identification, recordkeeping and reporting requirements for noncash nonpari-mutuel wagering transactions. These requirements are set forth in **Regulations 22.061 through 22.065**. The requirements, which are similar to

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**Regulation 6A** requirements for race books and sports pools, are further explained in the “Regulation 22 Newsletter #1” issued by the Gaming Control Board on March 24, 1999.

**ACCOUNTING PROCEDURES**

The accounting procedures for reporting race and sports pool revenue should be evaluated for the following areas:

1. **Future bets - Regulation 6.110(3)** allows future wagers to be included in race/sports book write in one of the following methods:
  - a. Include in write in the month that the wager was made, or
  - b. Exclude from write in the month that the wager was made and include in write in the month that the event was completed.
2. **Sleepers (unclaimed winning tickets)** The inclusion of winning tickets, which have not been paid out to a customer, as a payout for tax return purposes is in violation of **Regulation 6.110(3)**. Sleepers are not deductible since they are not cash payouts.
3. **Federal wagering tax** This tax can be treated in one of two ways when the wager is initially made. Either the book absorbs the tax or the patron is required to pay the tax in addition to the wager. When the book absorbs the tax the full wager should be reported as write and the tax should not be deducted. In the case where the patrons pay the tax as an addition to the wagered amount, it should not be added to the wager, and therefore not be included in revenue as an add-on to his bet.
4. **Reserve requirements - Regulation 22.040** requires that each race and sports book maintain a reserve (unless a waiver is granted by the Board Chairman) of not less than the greater of \$25,000 or the sum of the following amounts:
  - a. Amounts held by the book for the account of patrons;
  - b. Amounts accepted by the book as wagers on contingencies whose outcomes have not been determined; and
  - c. Amounts owed but unpaid by the book on winning wagers through the period established by the book for honoring winning tickets.

The book must calculate its reserve requirement each day and notify the Board if it finds that its reserve is not sufficient. The purpose of the reserve requirement is to provide protection for the customers of amounts owed by the book. Payment could otherwise be jeopardized by external or internal theft of a book's funds, bankruptcy, confiscation, or termination of the business.

5. The proper handling and regulatory compliance of items such as cash overages and shortages, free play and promotional items, layoff bets, tournaments and contests.

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Scratches should be excluded from write and payouts; however, some books incorrectly include scratches in write and then deduct them as payouts. This practice results in a correct net win figure but, if scratches are material, will lower the win/write percentage.

Consideration should also be given to determining if a book might be giving patrons rebates or favorable wagers (i.e., those that have little risk of loss) in the house race and sports books based on the patron's pari-mutuel play. **NRS 464.045(3)** does not allow for a deduction of promotional activity from pari-mutuel revenue. A book might offer these types of promotions to entice patrons to increase their wagering activity in the licensee's pari-mutuel book. Books would do this because pari-mutuel wagering is very profitable for the book (since they receive a guaranteed commission on every wager), and they want patrons to bet in their book, rather than in their competitor's book. An indicator that this type of activity may be occurring is when the book's pari-mutuel handle shows a material increase over a period of time, while at the same time the win/drop % in the house book shows a material decline. **Regulation 22.125** specifically prohibits a book from:

1. Accepting less than the full value of a pari-mutuel bet, even in an indirect way (such as a promotion utilizing house wagering),
2. Refunding or rebating a portion of any pari-mutuel wager, or
3. Increasing the payoff or providing a bonus on any pari-mutuel wager.

Complimentary room, food, beverage or entertainment admissions are specifically allowed by **Regulation 22.125**.

The regulation also states that a book shall not offer a wagering proposition or set or move its wagering odds, lines or limits to accomplish the prohibited items discussed above. A book may not set lines or odds or offer wagering propositions for the purpose of ensuring that a patron will win a wager or a series of wagers. **Regulation 22.125** gives the Chairman the authority to require a book to disclose its house rules and limits and seek approval before changing those limits and rules. The Chairman may also require the licensee to keep records of betting that takes place between changes of rules. These requirements are designed to discourage a licensee from temporarily changing its rules or limits to benefit heavy pari-mutuel bettors and thereby accomplishing that which is prohibited by this regulation.

**IN-HOUSE PROGRESSIVE PAYOFF SCHEDULES**

**Regulation 5.110** addresses in-house progressive payoff schedules. 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 a similar game but this must also be documented. Progressive payoff schedules may be given away through a concluding contest, tournament or promotion if conducted with a game similar to the game from which the amounts are distributed. For the purposes of auditing gaming



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establishments, no work need be done with regard to inter-casino linked progressive payoff schedules.

**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:

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<u>Item</u>	<u>Accounting Treatment</u>
Match Play	Only cash received in handle, deduct all payouts
Discount Wagering (Negotiable)	If distinguishable, discounted \$ amount in handle, deduct all payouts
Discount Wagering (Nonnegotiable)	Discounted \$ amount in handle, deduct all payouts
Free Play Wagering (Negotiable)	If distinguishable, \$0 in handle, deduct all payouts →
Free Play Wagering (Nonnegotiable)	\$0 in handle, deduct all payouts →
Coupons or Certificates	Only cash received in handle, deduct all payouts
Special Proposition or Match up Race Wagers	Proper accounting treatment will depend on circumstances
“Player Club” rewards to patrons based on pari-mutuel wagering activity	Prohibited, (except comps of room, food, beverage or entertainment)
A wager or a series of wagers with no risk of loss	Prohibited
Tournaments/Contests/Drawings	No effect on revenue if not part of an inter-casino linked system
Tournaments/Contests which include elements of a normal wager (e.g., “Pick Six” wagering with a consolation prize)	Total \$ amount wagered in handle. For Pick Six winners (6 for 6) deduct payouts, however, for consolation prize winners do NOT deduct payouts if awarded to person picking the most winners.
Appeasement Payouts	Total \$ amount wagered in handle, do NOT deduct appeasement payouts
All promotions offered in conjunction w/pari-mutuel wagering	Generally prohibited

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

# **PARI-MUTUEL WAGERING**

## **TERMINOLOGY (Regulations 26A and 26B)**

The following terminology is applicable to pari-mutuel wagering:

<b>Breakage</b>	The rounding of a payout on a winning pari-mutuel wager, not to exceed ten cents; or Those deficiencies arising from payouts made pursuant to <b>Regulation 26A.040(6)</b> ; or Those deficiencies arising from the payment of a guaranteed payout pursuant to <b>Regulation 26A.040(7)</b> ; or The odd cents over a multiple of ten cents arising from the computation of odds and payouts on amounts wagered on a race which is part of an interstate common pari-mutuel pool.
<b>Commission on wagers</b>	The amount retained and not returned to patrons by a pari-mutuel book from the total amount of off-track pari-mutuel wagers.
<b>Common pari-mutuel pool</b>	Means a pari-mutuel wagering pool consisting of the off-track pari-mutuel wagers placed at two or more pari-mutuel books.
<b>Interstate common pari-mutuel pool</b>	A pari-mutuel pool consisting of the pari-mutuel wagers placed at a track, its intrastate betting locations, other jurisdictions and the off-track pari-mutuel wagers placed and accepted at Nevada pari-mutuel books.
<b>Intrastate common pari-mutuel pool</b>	A pari-mutuel wagering pool operated by a systems operator consisting solely of the wagers placed and accepted at two or more Nevada pari-mutuel books on races at tracks.
<b>Live audio visual signal</b>	The audio and visual transmission of a race, or series of races, as it occurs at a track. This signal is not to be used by a pari-mutuel book to determine winners of or payoffs on nonpari-mutuel race wagers – this is accomplished via the off-track pari-mutuel system.
<b>Manual merge</b>	The process used in the event of a systems or communications failure by which the systems operator transmits to the track through telephone, telecopy, cellular, or other means of communication, the pari-mutuel books' wagering information and the process by which the track includes the off-track pari-mutuel wagers in the interstate common pari-mutuel pool in such event. This process is necessary since the betting ticket would be issued to the customer but the wager would not have been communicated to the track.
<b>Nonpari-mutuel race wager</b>	A race wager other than one offered to be included in an interstate or intrastate common pari-mutuel pool.

<b>Off-track pari-mutuel race system</b>	A computerized system or component of a system that is used to transmit wagering data between a Nevada book and an out-of-state race track. The information from all Nevada books is sent to a single systems operator and forwarded by the operator to the out-of-state track.
<b>Off-track pari-mutuel sports system</b>	A computerized system or component of a system that is used to receive wagering information from and transmit pool data to a pari-mutuel sports book.
<b>Off-track pari-mutuel wager</b>	A wager placed by a patron and accepted by a pari-mutuel book on a race or races/sporting event offered as part of an interstate common pari-mutuel pool whether or not the wager is actually included in the total amount of the interstate common pari-mutuel pool.
<b>Pari-mutuel book</b>	A race book/sports book that has received a license to accept off-track pari-mutuel wagers.
<b>Pari-mutuel rebate or discount</b>	Promotional activity whereby the house <i>rebates</i> (pays) money to a patron based on the patron's pari-mutuel wagering activity. For example, the licensee may give certain patrons a 10% cash-back rebate on the patron's pari-mutuel wagers. This type of promotional activity is <b>not</b> deductible from either race book or pari-mutuel book revenue. Additionally, <b>NRS 464.075</b> prohibits altering the value of wagers for patrons.
<b>Pool data</b>	Data regarding the results, payoffs, odds or payoff prices, and the aggregate amount of off-track pari-mutuel sports wagers accepted on each sporting event by all pari-mutuel sports books.
<b>Post time</b>	For purposes of off-track pari-mutuel wagering, <b>Regulation 26A.020</b> defines this as when the last entrant enters the gate, the starting gate car begins to move or such other time as designated by the chairman. <b>Regulation 26B.020(10)</b> defines post time for pari-mutuel sports wagering as five minutes before the scheduled start of a sporting event or such other time as designated by the chairman.
<b>Purged tickets</b>	Unclaimed winning tickets which are removed from the pari-mutuel system. <b>Regulation 26A.020(5)</b> requires manual adjustments to include these in gaming revenue since they were never actually paid, even though the licensee received money from the track to make the payment.
<b>Systems operator or operator of a system</b>	A person engaged in providing the off-track pari-mutuel system or services directly related to the reconciliation of the interstate or intrastate common pari-mutuel pool and transfers of funds between the tracks and the pari-mutuel books, or among the pari-mutuel books.
<b>Takeout</b>	See Commission on wagers.

<b>Track</b>	An out-of-state facility licensed to operate horse or other racing where pari-mutuel wagering on races is conducted, or a person licensed in another jurisdiction to conduct pari-mutuel wagering on such races. Where applicable, the term also includes a person or governmental agency from outside this state that operates a track, holds a track's rights to off-track pari-mutuel wagering or shares in its revenues. The term also includes an association of tracks.
<b>Wagering data</b>	The information regarding results, actual payouts, and the amount of pari-mutuel and off-track pari-mutuel wagers accepted for each race or group of races/sporting event in an interstate or intrastate common pari-mutuel pool.
<b>Wagering information</b>	The amount of off-track pari-mutuel wagers accepted for each race or group of races by a pari-mutuel book.

**GENERAL**

A pari-mutuel system of wagering is one in which wagers with respect to the outcome of a race or sporting event are placed in a wagering pool conducted by a person licensed or otherwise permitted to do so under state law. The bettors are wagering against each other and not against the operator. The operator determines payoffs in a manner that allows him to retain a fixed percentage of total wagers as a commission similar to the rake on a card game. Thus, the operator will not incur any losses. Note that in nonpari-mutuel race book operations the licensee may pay track odds, but the wagers are against the licensee, not other patrons. Accordingly, licensees would be susceptible to material losses, particularly if unlawful activity (i.e., race fixing) at the track resulted in high payouts on supposed "long shots". In order to take advantage of the lower risk associated with pari-mutuel wagering, several operators of licensed race books formed the Nevada Pari-Mutuel Association to take the necessary steps to permit Nevada race book operators to participate in pari-mutuel wagering pools at various tracks across the country.

A book participating in pari-mutuel wagering must be licensed pursuant to **NRS 464** and must comply with **NRS 463** and all other regulations to the extent they do not conflict with **Chapter 464. Regulation 26A** establishes the specific procedures pertaining to the operation of interstate and intrastate pari-mutuel race wagering. **Regulation 26B** relates to intrastate pari-mutuel sports wagering.

There are certain terms for pari-mutuel race betting that have the same meaning as in-house race betting but are called something different. The following list of comparable terms should aid the auditor when performing pari-mutuel testing:

<b><u>In-House Race Book Term</u></b>	<b><u>Pari-mutuel Book Term</u></b>
Write	Sales
Pay	Cash
Void	Cancel
Unpaid Winner	Out

Write Transaction Report	Transaction Search Report
Exception Report	Exception History Report (This report is much more condensed than the race and sports exception report.)
Unpaid Winners Report	Outsbook Report

## **REVENUE COMPUTATIONS**

**Regulation 26A.020(5)** defines gross revenue for pari-mutuel race wagering as the amount of the commission on wagers received by the licensee, plus positive breakage and the dollar amount of winning tickets that remain unpaid pursuant to **Regulation 26A.040(12)**, less negative breakage and the amount paid to a track for the right to be part of an interstate or intrastate common pari-mutuel pool (“track fee”). This is equivalent to commission + positive breakage + track fee refunds + purged tickets - negative breakage - track fees - track fee additional payments.

For pari-mutuel sports wagering, **Regulation 26B.200** defines gross revenue as the total commission on wagers, plus any pool amounts not won by patrons and retained by the pari-mutuel sports book, plus the face amount of unpaid winning tickets, plus breakage, less any rights fee paid by the pari-mutuel sports book, less any commission on wagers returned to the patron by the pari-mutuel sports book pursuant to **Regulation 26B.040(5) and (6)**.

In calculating pari-mutuel revenue, **NRS 464.045(3)** states that **“a licensee shall not deduct from gross revenue any promotional allowances, including, without limitation, prizes, payments, premiums, drawings, discounts, rebates, bonus payouts, benefits or tickets that are redeemable for money or merchandise.”**

Oftentimes, licensees improperly calculate pari-mutuel revenue by failing to deduct weekly track fees and additional track payments and by failing to add purged tickets and track fee refunds back to revenue. Below is a description of each of these elements:

**Track Fees** – The amount of track fees that is deductible is the amount shown at the bottom of the weekly track fee report received from the systems operator. The licensee should have an account established in the general ledger for weekly track fees. It is important to ensure that the weekly track fees are not deducted twice for weeks that carry over from one month to the next. Licensees have the option of deducting the fees in either month or to allocate the fees between the two months, as long as no more than the total of seven days of track fees are deducted from pari-mutuel revenue.

**Example:** A weekly track fee report containing the days from September 28 through October 4 has deductible track fees of \$700. The licensee may deduct the \$700 in September, in October, or allocate \$300 to be deducted in September and \$400 to be deducted in October. Another allocation process may be used, as long as no more than a total of \$700 is deducted from revenue.

It is important to note that although track fees are deductible, operator fees, which are fees charged by the systems operator, are not deductible. Auditors should be aware of this difference and ensure that the fees are properly handled.

**Additional track fees/track fee refunds** – Occasionally, additional track fees are due or a refund is given as a result of a re-negotiation of the contract between the books and the track or an error in the original calculation of weekly track fees. An adjustment must be made to pari-mutuel gross revenue to properly account for the additional amount(s) paid or refunded.

**Purged Tickets** – Pari-mutuel books shall allow patrons to cash outstanding off-track pari-mutuel tickets for 120 days from the date of purchase or 30 days after the close of the racing meet, whichever shall first occur. After that, unclaimed winning tickets are purged by the systems operator from the pari-mutuel system. As such, the licensee is relieved of the liability that was accrued to pay the tickets. Thus, this liability now becomes revenue for the licensee, and a manual adjustment to pari-mutuel gross revenue in the amount of the purged tickets is required by **Regulation 26A.040(12)**.



# **ENTERTAINMENT REVENUE**

## **PREFACE**

This section of the GAP manual was prepared solely to assist accountants and auditors (internal and external) who have responsibilities related to the Live Entertainment Tax in Nevada gaming establishments. It is not intended to function as a stand-alone document. It should be read in conjunction with NRS 368A, NAC 368A, and other materials (especially the FAQs) found at: [http://gaming.nv.gov/live\\_entertainment\\_tax.htm](http://gaming.nv.gov/live_entertainment_tax.htm).

Non-gaming taxpayers should not use the advice contained herein, but should refer all questions to the Department of Taxation.

The following pertains to any narrative in this document that pertains to specific taxation issues:

*Note: The guidance herein cannot necessarily be applied universally to all situations without further consideration. Licensees who desire a ruling as to whether the guidance herein or a specific section of the live entertainment tax statute or regulation applies to a specific tax situation should direct a written request for an advisory ruling to the State Gaming Control Board (“Board”).*

*Furthermore, although the Board believes this guidance is correct, licensees may petition the Nevada Gaming Commission (“Commission”) for a redetermination of any audit adjustments included in a Statement of Determination prepared by the Board, even if the adjustment is consistent with the advice given herein. The Commission has neither approved nor disapproved this guidance.*

## **ENTERTAINMENT TAX TERMINOLOGY**

The following terminology is applicable to casino entertainment tax:

<b>Complimentary</b>	An item (or service) of value that the licensee usually sells, that is given to a patron without the patron having to pay for the item (e.g., complimentary drinks, food, rooms, etc.).
<b>Dark days</b>	Days without entertainment.
<b>Detail cash register tape</b>	A tape that records each transaction that occurs on the register. Alternatively, a computer-generated detailed transaction report by location or by cash register is acceptable.

<b>Facility</b>	On the premises of a licensed gaming establishment which is licensed for 51 or more slot machines, or that has 6 or more table games, this is <b>any area or premises where live entertainment is provided</b> . For gaming establishments with less than 51 machines and less than 6 table games, “facility” means any area premises where live entertainment is provided and for which consideration is collected for the right or privilege of entering that area or those premises if the live entertainment is provided. [NRS 368A.060] Note: the structure of this definition gives rise to differences in taxation among gaming establishments. Policies applicable to smaller gaming establishments are summarized in a letter dated June 29, 2005. <a href="http://gaming.nv.gov/documents/pdf/industry_ltr_083.pdf">http://gaming.nv.gov/documents/pdf/industry_ltr_083.pdf</a>
<b>Four-waller</b>	An entity unrelated to a licensee that leases the licensee’s showroom or other live entertainment facility. The regulations and statutes specifically require the licensee to maintain all records relating to the entertainment tax, to pay the entertainment tax and ensure compliance with all requirements. See FAQ J1 at <a href="http://gaming.nv.gov/documents/pdf/industry_ltr_083.pdf">http://gaming.nv.gov/documents/pdf/industry_ltr_083.pdf</a>
<b>Gross sales</b>	The amount of sales that includes taxes and, sometimes, gratuities.
<b>Live entertainment</b>	Any activity provided for pleasure, enjoyment, recreation, relaxation, diversion or other similar purpose by a person or persons who are physically present when providing that activity to a patron or group of patrons who are physically present. Further defined in NRS 368A.090.
<b>Maximum Occupancy</b>	Defined at NRS 368A.200(7). Under NRS 368A.200, maximum occupancy governs the extent of taxation of various facilities. It is determined in the following order of priority: by determination of the Fire Marshal, or comparable government agency; if such occupancy has not been determined, the occupancy designated in any permit required to provide live entertainment; if such permit does not designate the maximum occupancy, the actual seating capacity of the facility. See also FAQ E1 at <a href="http://gaming.nv.gov/documents/pdf/let_faq.pdf">http://gaming.nv.gov/documents/pdf/let_faq.pdf</a>
<b>Net sales</b>	The amount of sales without taxes and, if applicable, gratuities.
<b>NGC-11</b>	Tax report form used to report entertainment revenue subject to the 10% tax and the resulting liability.
<b>NGC-13</b>	Tax report form used to report entertainment revenue subject to the 5% tax and resulting liability.

**Retail price**

The amount charged to a customer who does not have a coupon or discount.

**GENERAL**

Most Nevada gaming licensees pay a 10% tax on all amounts paid for admission, food, refreshments and merchandise when these sales are made in conjunction with live entertainment in venues with a maximum occupancy of less than 7,500 and a 5% tax on admission charges for venues with a maximum occupancy of at least 7,500. This tax is referred to as the live entertainment tax (LET).

The table below and the narrative that follows address some key taxation issues under the LET statute and regulation effective as of July 1, 2005. Note that the tax is imposed by NRS 368A.200; and NRS 368A.090 defines live entertainment (NRS 368A.090(2)(a) specifies the types of activities that are considered live entertainment, while NRS 368A.090(2)(b) specifies the activities that are not considered live entertainment). Additionally, NRS 368A.200(5) identifies exemptions from the tax. NAC 368A provides more specific guidance on computing and recording the amounts subject to the tax.

**LET Rules Effective 7/1/05**

<b><u>Issue</u></b>	<b><u>Taxability</u></b>
<p>Facility size issue</p> <p>See “maximum occupancy” definition in preceding section.</p>	<p>Venues with maximum occupancy of 7,500 and up pay a <b>5%</b> tax on admissions only. <b>No</b> tax on food, refreshments or merchandise.</p> <p>All other venues pay 10% on admissions, food, refreshments and merchandise. [NRS 368A.200(1)]</p> <p>For licensed gaming establishments having fewer than 51 slot machines and fewer than 6 table games, venues with a seating capacity of less than 200 persons are not subject to the tax. [NRS 368A.200(5)(e)] See: <a href="http://gaming.nv.gov/documents/pdf/industry_ltr_083.pdf">http://gaming.nv.gov/documents/pdf/industry_ltr_083.pdf</a></p>
<p>Merchandise sold outside showroom</p>	<p>Exempt from taxation provided that purchase of the merchandise does not entitle the purchaser to admission. [NRS 368A.200(5)(f)]. See also NAC 368A.430.</p>
<p>Boxing contests or exhibitions</p>	<p>Exempt provided that the event is governed by the provisions of NRS 467. [NRS 368A.200(5)(c)]. Note that NAC 368A.400 broadens the definition of “boxing contest or exhibition” to include “unarmed combat” as that term is defined in NRS 467.0107</p>
<p>Charitable/Non-profit events</p>	<p>Exempt if the proceeds from admission charges become the property of the non-profit entity. [NRS 368A.200(5)(b) and NAC 368A.470 and 480]. See also FAQ section F at <a href="http://gaming.nv.gov/documents/pdf/let_faq.pdf">http://gaming.nv.gov/documents/pdf/let_faq.pdf</a> and additional comments following this table.</p>

<u>Issue</u>	<u>Taxability</u>
Trade shows	Exempt per NRS 368A.200(5)(g).
Motion picture films/televised broadcasts of shows or other events/recorded or mechanical music or speech	Exempt because the definition of live entertainment states that performer and audience must be present in the facility. [NRS 368A.090].
Outdoor concerts	Taxable if an admission charge applies or if a patron is required to purchase food, refreshment or merchandise. A new exemption for outdoor events was added in NRS 368A.200(5)(m) for those instances where no admission charge and no required purchase applies. See additional comments following this table about “offered to the public.”
Interactive entertainment	A special exemption was added in NRS 368A.200(5)(l) for live entertainment that is in conjunction with a motion simulator ride or similar attraction if the live entertainment is not the primary attraction (e.g., a casino area designed to simulate a space ship).
Music by musicians who move constantly through the audience; other performers who stroll continuously	Music provided by musicians who move constantly is exempt at all gaming establishments per NRS 368A.200(5)(h). Furthermore, NRS 368A.090(2)(b)(3) excludes from the definition of live entertainment other performances occurring at gaming establishments having at least 51 slots or 6 tables in cases where such performers stroll continuously.
Entertainment that occurs at private meetings or dinners/casual assemblage. Primary purpose is other than entertainment.	Exempt per NRS 368A.200(5)(i). See also NAC 368A.400(3). Further information may be found in FAQs section M at: <a href="http://gaming.nv.gov/documents/pdf/let_faq.pdf">http://gaming.nv.gov/documents/pdf/let_faq.pdf</a>
Presented in the common area of a shopping mall	Exempt per NRS 368A.200(5)(j) unless the entertainment is in a facility within a mall. For gaming establishments, “facility” is very broadly defined; therefore, exemptions are uncommon.
Occasional performances by waiters, bartenders, etc.	Exempt per NRS 368A.090(2)(b)(2) <u>under certain conditions.</u>
Occasional “ambience” entertainment (e.g., go-go dancers in a nightclub).	Exempt per NRS 368A.090(2)(b)(8) <u>only if specified tests are met.</u>

Other taxation issues:

**Admission charges in areas with gaming** - If the licensee has gaming in an area where an admission charge is imposed (requires approval by the Board Chairman), and the area would *not otherwise* be subject to the tax, the admission charges are subject to LET. For example, a venue with a DJ whose sole activity consisted of playing recorded music would *not otherwise* be subject to the live entertainment tax. However, if the licensee were to obtain approval to have slot machines in this venue and were to charge admission to get in, then the **admission charges** would be subject to the live entertainment tax pursuant

to **NRS 463.15995 and Regulation 5.210(8)**. Note, however, that the food, beverage and merchandise sales are not subject to the tax.

If live entertainment is offered in the venue, then the normal rules for live entertainment taxation apply.

**Beauty Pageants, talent contests and similar events** – Events of this type, including such things as Mr. Universe, bikini contests, etc. are all considered live entertainment. Unless there is some specific exemption that applies, the event is subject to the live entertainment tax. See also FAQ H8 at [http://gaming.nv.gov/documents/pdf/let\\_faq.pdf](http://gaming.nv.gov/documents/pdf/let_faq.pdf)

**Charitable/Nonprofit events** – Under **NRS 368A.200(5)(b)** and **NAC 368A.470**, the proceeds from an event conducted by or entirely for the benefit of a nonprofit organization are not subject to the live entertainment tax. The determination of nontaxability rests upon whether the ticket proceeds are given to the nonprofit organization. This means that if the ticket proceeds are donated, but the licensee keeps the proceeds from food or beverage sales, the whole event remains nontaxable. If, on the other hand, the licensee keeps the ticket sales, or any portion thereof, the whole event is taxable (admissions, food, beverage, and merchandise sales). This does not mean, however, that the licensee cannot retain a portion of the proceeds to cover costs as described in the regulation. It is not acceptable, however, for the licensee to donate a specified dollar amount to the nonprofit and call this a charitable event. Additionally, **NAC 368A.470** addresses the scope of the exemption and **NAC 368A.480** addresses the documentation required to support exemption of the nonprofit organization.

**Entertainment offered to the public** – Entertainment offered, for example, in a pool area open only to hotel guests **would not** be entertainment offered to the public. Otherwise, provided the event is outdoors (even if there is a tent or other temporary structure involved), there is no admission charge, and there is no requirement to purchase anything, the event is not subject to the tax.

**[NRS 368A.200(5)(m)]**

**Photographs** – Questions are often raised as to whether pictures can be considered merchandise. If the licensee sells photographs of patrons with celebrities or in an attraction as memorabilia for the patron, this is considered a service, and services are not subject to the live entertainment tax. However, if a licensee sells posters or other merchandise featuring photographs, these items are considered merchandise. See also FAQ O1 at [http://gaming.nv.gov/documents/pdf/let\\_faq.pdf](http://gaming.nv.gov/documents/pdf/let_faq.pdf)

**Tournament awards banquets** – Gaming tournaments award banquets/parties that include entertainment are to be considered private meetings/dinners not primarily conducted for entertainment purposes, and therefore, are nontaxable events per NRS 368A.200(5)(i). Note, however, if a package deal is offered whereby a patron can purchase entry into the tournament along with items subject to the live entertainment tax, such as show tickets, then see “Tournament Package Programs” later in this manual.

## **ACCOUNTING PROCEDURES AND ADDITIONAL NOTES**

- Complimentaries are not subject to LET. When comps are deducted to calculate taxable revenue, care should be taken to ensure that gross comps (which include taxes) are deducted from gross revenue; or conversely, net comps (net of taxes) are deducted from net revenue. Usually, this is performed on a daily basis during audit procedures. Another acceptable method is to include the comp tickets in the gross revenue and deduct the comps at the end of the month from the gross revenue. If this method is used, the licensee must maintain documents showing the daily comps separately for each individual event to which the tax applies.
- If a lessee operates an entertainment venue on the premises of a licensed gaming establishment and collects money for comps given by the licensee to its gaming patrons, the money collected by the lessee from the licensee is taxable. This is because pursuant to NAC 368A.450(4)(a)(2), revenue received by the “operator of the facility” (in this case the lessee) is subject tax. Note that sometimes the lessee will provide discount to the licensee for the comps, charging, for example 85% of the value of the entertainment item. Where a discounted amount is collected, only the amount actually collected, rather than the retail value, is subject to the tax.
- Comps between operations that are part of a larger corporate entity are considered true comps and are not subject to the tax. This is because no revenue is flowing into the larger corporate entity.
- Pursuant to NRS 368A.200(4), if an **admission ticket** doesn’t specifically state which taxes are included in the price using language permitted by NAC 368A.460, the entire ticket price is subject to entertainment tax (and the licensee is considered to be absorbing the tax). “All taxes” is **not** acceptable. The regulations do not require that the patron be notified as to whether LET is included in the price of lounge drinks, restaurant meals or other situations. The inclusion of wording to this effect applies **only** to admission tickets. See “Show Ticket Sales” for more information.
- Consistency and propriety should be used in calculating taxes. When the base amount is the same for both entertainment and sales taxes, they should be calculated in the same manner. If an item is subject to both taxes, then the computation from gross to taxable sales should be performed in a single step. For example, assume the licensee collected \$100,000 in sales and this amount covered both taxes. Assume that the sales are subject to a 10% live entertainment tax and a 8.1% sales tax. The proper computation is to divide \$100,000 by 1.181 to arrive at the taxable sale. Handling these computations in another manner is likely to result in the incorrect taxable base for one or both taxes. Errors of this type are relatively common. See “General Accounting” for more information.
- Although NRS 368A.200(2)(b) allows a licensee to exclude from taxable sales amounts paid to other parties, a licensee may not deduct from taxable sales those fees paid in conjunction with events not subject to the tax.
- If tickets are sold by an affiliate of the licensee (or an affiliate of the company running the entertainment venue), taxable revenue is based on the amount collected from the customer, even if the company making the sale retains a portion of the ticket proceeds.
- With the exception of affiliated properties, a licensee may not deduct fees paid, including credit card fees paid, for events not reported on its tax return. For example, if Casino A

sells a ticket for a show at Casino B (unaffiliated with Casino A), Casino A may not deduct the credit card fees associated with those sales. Casino B only pays taxes on the amounts forwarded by Casino A and the two properties can contractually agree to reduce the amount forwarded by the expenses associated with the sale.

- Many licensees charge processing fees to offset the cost of selling tickets. Processing fees charged and retained by the licensee **increase** taxable revenue.



## **PACKAGE PROGRAMS**

Package programs sold by licensees typically are sold at a lower price than what would be paid for all the components purchased individually. Because a licensee does not receive the same amount for a package that it would when the individual components are sold at full retail prices, it is necessary to allocate revenue to the individual components on an equitable basis, as mandated by **NAC 368A.450(5)**. Package program breakdowns accomplish this. Of course, the focus will be on entertainment taxable items. A list of package program terms, package program breakdown tips and a general form for the breakdowns follow. Note that NAC 368A.450(5)(b) requires that licensees pay taxes on the full retail value of food and beverage items with an average retail value of less than \$5. Such items should be excluded from package computations.

## **PACKAGE PROGRAM TERMS**

The following terms are applicable to package programs:

<b>Breakage</b>	The amount of revenue from the package price that is not assigned to a component of the package in a breakdown.
<b>Breakdown</b>	A schedule of the amounts (per package component) at which revenue is recorded when the package components are redeemed.
<b>Casino rates</b>	The amount charged a patron for a hotel room when the customer is a known player in the casino.
<b>Commission</b>	The amount an authorized seller receives from the licensee for each package sold. (e.g., 10% of the package price).
<b>Nonprofit costs</b>	An expense to the licensee that does not involve a benefit to the licensee. Package programs contain nonprofit costs such as room tax, sales tax, gratuities, etc. In order to be a nonprofit cost, the amount must be payable to a third party and not involve a business decision by the licensee.
<b>Package price</b>	The amount the customer pays to purchase the package.
<b>Package program coupon book</b>	A small booklet given to the patron containing coupons for each element of the package. The patron uses the coupons when he wants to redeem a component of the package (e.g., a package program patron will present to the waiter a showroom coupon instead of paying cash for seeing the show).
<b>Package program flyer</b>	A brochure that contains a description of the contents and terms of the package.

<b>Per person double occupancy</b>	The term used when describing the amount charged one person for a room when the person shares the room with another person. Package prices are usually based upon what type of room the customer receives (e.g., \$65.00 per person double occupancy vs. \$79.00 per person single occupancy).
<b>Rack rates</b>	The standard amount charged a patron for a hotel room. This rate may fluctuate based on the day of the week or the season of the year.
<b>Redeemed coupons</b>	Coupons that were used by the package program patrons.
<b>Unredeemed coupons</b>	Coupons that were issued to customers (i.e., the customer paid for the coupon) but were not used by the customer. Entertainment tax is due on a package program coupon whether the customer uses it or not, because payment has been received for the coupon [see <b>NAC 368A.420(1)(b)</b> ].

### **PACKAGE PROGRAM BREAKDOWN TIPS**

A licensee may offer programs that entitle purchasers to several services (i.e., hotel room for two nights, one dinner show, two cocktails in the lounge, luggage delivery, etc.). This is known as a package program. These packages are normally sold at a discount. In such cases, the licensee must ensure the discount is allocated proportionately to all elements of the package. In performing a package program breakdown consideration should be given to the following items:

1. Retail prices should be documented and include the source of the retail price information (i.e., cash register tapes, menus, documentation of price changes, etc.).
2. Weighted averages can be used to account for retail price changes of package items. They can also be used to account for package components where the patron has the option to select from a list of choices (e.g., various items from a menu).
3. Examine both coupon books and package flyers to determine components of the packages.
4. An item has intrinsic value if it may be exchanged for food, drinks, merchandise or service. Package components with an intrinsic value may be included as a nonprofit cost, if the cost of the item is absorbed. For example, a package includes a coupon for a \$1.00 discount for pizza in the pizza parlor. The licensee pays the pizza parlor, which is not owned by the licensee, \$1.00 for each discount coupon redeemed. The package breakdown would include \$1.00 as a nonprofit cost.
5. Examine all coupons to determine which coupons include tax and tip. Some coupons may only include tax.
6. Breakdowns should be computed for each version (i.e., when components change) of the package program.

7. Beware of any sales tax rate and gratuity changes. If the charges for food and beverage are itemized separately from admission charges, sales tax should be charged only on the food and beverage portion. Verify what is remitted to third parties as gratuities, sales taxes, room taxes, etc. Only the remitted amounts should be included as nonprofit costs in the package program breakdown.
8. The tax on entertainment within a package program should be based upon the value of all the entertainment offered in the program. For example, if a program offers two types of entertainment (showroom and lounge), then the tax due is based upon the value of the two combined.
9. Items that are offered free to the general public but are included in the package should not be given a retail value in the breakdown (e.g., if a free show coupon is included in the package yet is also available free to the general public, no value would be assigned in the breakdown).
10. Bar coupons should be apportioned between entertainment and nonentertainment areas as well as entertainment status vs. nonentertainment status for entertainment areas. A certain percentage of the coupons in the allocations can be non-taxable items if it can be demonstrated, through redemptions, that the same or similar percentage of items were redeemed in non-taxable areas/times.
11. If unlimited drink coupons are included in a package program, allocations should be based on the actual redemption records. If no records are available an estimate should be used. In general, the assumed number should not be less than two drinks per person per day up to a maximum of ten per person total. For other unlimited items, the number used in the calculation should be reasonable given the nature of the item offered and the length of the patron's stay included in the package.
12. Be sure that the amount allocated to LET items does not exceed the regular retail price of the LET items. **Food and refreshments in taxable entertainment areas** valued at less than \$5 should be omitted entirely from the breakdown when computing the retail value. This is based on NAC 368A.450(5)(c) since items less than \$5 are taxed at retail. Note that because the sales price is not adjusted for the value of these items, the sales price is spread across fewer items. Remaining LET items will be valued higher than they would be if the value of all elements had been recognized. If this is the case, use the retail price, not the allocated price.
13. Two-for-one coupons for show admissions included in the package should be given zero value. The patron is *not* afforded the right to attend a show by getting this coupon. When the patron redeems the coupon, paying additional fees, the revenue from that sale is subject to entertainment tax.

**It is not necessary to do package program breakdowns in the following situations:**

1. The package program entertainment items are reported at retail. Note that NAC 368A.450(5)(c) indicates that licensees have the option of paying LET on full retail value of the package components.
2. Each of the package's entertainment components retails at less than \$5 [NAC 368A.450(5)(b)]. Entertainment components valued at less than \$5 are taxed at the retail price. However, a package containing unlimited drinks redeemable in

areas subject to entertainment tax is considered to be one element of the package (and thus in excess of the \$5 threshold). If a coupon is good for more than one drink the value of the coupon is the number of drinks times the average drink price. So, if the average drink price is \$4 and the coupon is good for 2 drinks, the value of the coupon is \$8. Where the coupon's total value exceeds \$5, the need to do a breakdown would not be eliminated, and taxes may be paid based upon an allocation.

**PACKAGE PROGRAM BREAKDOWN**

**General Note for all Package Program Examples:** Be sure to consider the facility where the ticket is sold, i.e., 10% tax rate is applicable for facilities with less than 7,500 available seats and 5% tax rate is applicable for facilities with 7,500 or more seats.

The following formula is used to estimate the taxable portion of a package program:

$$\frac{S-C}{R-C} \times E = \text{taxable amount per package}$$

Where:

S = Package program sales price (i.e., amount received by licensee less travel agent commission, if any).

C = Nonprofit costs (i.e., items on which licensee does not make a profit (sales tax, entertainment tax, tips, luggage delivery, etc.)). Note: Commissions may be prorated based upon the number of packages sold by travel agencies, etc. to the total number of packages sold and treated as a nonprofit cost in the formula.

R = Retail sales price of all items in the package (including free coins but generally excluding free play coupons and other promotional coupons).

E = Net retail sales price of all items subject to entertainment.

A blank table that can be used to perform a package breakdown is included at the end of this manual.

Examples of the application of this formula are as follows:

The following example includes the following scenario: In order to obtain the package, double occupancy is required; therefore, the room rate is halved from rack rate. There are no food or beverage items included as a part of the show ticket and the package includes gratuity on the show ticket.

<u>Package Components</u>	<u>Tax and Gratuity Rate</u>	<u>Advertised (Street) Price</u>	<u>Net Retail Price</u>	<u>Nonprofit Costs</u>	<u>LET Items</u>
Room		45.00	45.00		
Room tax	12%		5.40	5.40	

Bellman			3.00	3.00	
Show ticket		30.00	30.00		30.00
Ent tax	10%		3.00	3.00	
Gratuity	17%	5.10	<u>5.10</u>	<u>5.10</u>	
Total			<u>91.50</u>	<u>16.50</u>	<u>30.00</u>
			<b>R</b>	<b>C</b>	<b>E</b>

Sales price per person (taxes included), double occupancy \$80.00

Travel agent commission

5.00

Net amount received by licensee

\$75.00 S

Estimated entertainment revenue:

$$\frac{(75.00 - 16.50)}{(91.50 - 16.50)} \times 30.00 = \$23.40$$

The following example includes the following scenario: In order to obtain the package, double occupancy is required, therefore, the room rate is halved from rack rate. All applicable taxes are included in the show ticket. There are 2 beverage items included as a part of the show ticket and the package includes gratuity on the show ticket.

Package <u>Components</u>	Tax and Gratuity <u>Rate</u>	Advertised (Street) <u>Price</u>	Net Retail <u>Price</u>	Nonprofit <u>Costs</u>	<u>LET</u> <u>Items</u>
Room		45.00	45.00		
Room tax	12%		5.40	5.40	
Bellman			3.00	3.00	
Show ticket		30.00	20.00		20.00
Ent tax on Admission	10%		2.00	2.00	
Drinks			6.77		6.77
Sales tax on drinks	8.1%		.55	.55	
Ent tax on drinks	10%		.68	.68	
Gratuity	17%	5.10	<u>5.10</u>	<u>5.10</u>	
Total			<u>88.50</u>	<u>16.73 C</u>	<u>26.77</u>
			<b>R</b>		<b>E</b>

Sales price per person (includes taxes), double occupancy \$80.00

Travel agent commission 5.00

Net amount received by licensee \$75.00 S

Estimated entertainment revenue:

$$\frac{(75.00 - 16.73)}{(88.50 - 16.73)} \times 26.77 = \$21.73$$

### Tournament Package Programs

Be aware of any entertainment items offered in conjunction with a tournament. A portion of the amount paid may be subject to entertainment tax.

The following is an example of the calculation that should be used if the patron had the opportunity to pay one fee for the tournament only and a higher fee for the tournament and a show:

Assume that for \$1,000 the patron would receive the right to play in the tournament, a hotel room and a show. Also assume that a patron could pay \$800 to play in the tournament only.

*Other given information:*

500 patrons paid \$1,000

100 patrons paid \$ 800

Total entry fees: \$580,000

Total prizes awarded: \$450,000

\$200 attributable to non-tournament items

Total retail value of room and show: \$350

Nonprofit costs: \$19

Retail value of the show: \$25

Calculation of the amount subject to LET:

$$\frac{\$200 - \$19}{\$350 - \$19} \times \$25 \times 500 = \$6,835$$

In cases where the tournament brochures did not specifically indicate an option to play in the tournament without the other items, the following calculation should be used (using some of the same information as above):

500 patrons paid \$1,000 each to enter: \$500,000

Total prizes awarded: \$450,000

$$\frac{\$450,000}{500} = \$900 \text{ average guaranteed payback per entrant}$$

(considered a nonprofit cost)

$$\frac{\$1,000 - \$919}{\$350 + \$900 - \$919} \times \$25 \times 500 = \$3,059$$

Note that if the tournament prizes awarded exceed the total tournament fees collected, no package program allocation is deemed necessary.

### **SHOW TICKET SALES**

If an admission ticket doesn't specifically state that entertainment tax is included in the price, as addressed in NRS 368A.200(4) the entire ticket price is subject to entertainment tax (and the licensee is considered to be absorbing the tax). Acceptable phraseology to meet this requirement is specified in NAC 368.460. "All taxes" notation on the ticket is **not** acceptable. For example, if the licensee charges \$100 for an admission ticket and they have the required verbiage on the ticket, the taxable amount is \$90.91 (\$100/1.1). If they don't have the required verbiage, the taxable amount is \$100.

The total amount charged for showroom sales, less gratuity, entertainment and sales taxes, is the amount subject to tax. However, admissions charges themselves are not subject to **sales** tax; only the amount attributable to food or drink is subject to sales tax. The following example shows how to determine entertainment taxable revenue:

#### **Example:**

A show ticket is sold to a casino patron for a total of \$112.00 which includes taxes (10% entertainment tax and a 8.1% sales tax) and gratuity (rate is 17% of drink prices per contractual agreement). The show includes 2 \$4.00 drinks; this is the amount allocated to the drinks by the licensee.

\$112.00	Amount received
- 1.36	Gratuity (\$8.00 x 17% contractual rate)
- .65	Sales tax (\$8.00 x 8.1%)
<u>109.99</u>	Base price plus entertainment tax

109.99 = 99.99 Revenue subject to entertainment tax  
1.1

### **GENERAL ACCOUNTING**

An important part of the entertainment revenue calculation is arriving at the “correct” net amount subject to the tax. For example, we know that a base price of \$10 together with sales tax of 8.1% and entertainment tax of 10% would cost a patron a total of \$11.81. \$10 is the amount of entertainment revenue. However, a licensee should start with the total cost to the patron and back out taxes. If the calculation is performed by first removing sales tax, then entertainment tax (rather than backing them simultaneously), revenue will be understated as shown below.

To remove sales tax:	$\$11.81 \div 1.081 = \$10.93$
To remove entertainment tax:	$\$10.93 \div 1.1 = \$9.94$ (computed taxable amount)

We know that the base price is \$10.00. Therefore, revenue is not being calculated correctly. To prove that backing out both taxes simultaneously results in the proper taxable amount, consider the following:

$$\$11.81 \div 1.181 = \$10$$

Be aware that some computer systems back out the sales tax using the improper formula. Don't take for granted that an amount is proper because it is computer generated. The formulas make all the difference.



## CREDIT CARD FEES

Credit/debit card fees paid to persons other than the licensee are not subject to entertainment tax. The basis for this exemption, effective January 1, 2004, is **NRS 368A.200(2)(b)**, and **NAC 368A.450(3)** prescribes the proper computation.

### Accounting for Credit Card Fees and Entertainment Revenue

The credit card fee should be accounted for by reducing gross entertainment revenue by the credit card fee prior to the backing out of taxes. Note that the licensee may deduct the amount of credit card fees that are associated with gratuities as well as for the amount of the actual ticket price. However, it is normal for the licensee to not know the actual credit card fee until well after the daily revenue figure has been calculated. When the fees are subsequently determined, the same algebraic equation must be applied to the fees as was originally applied to the gross entertainment revenue figure.

The amount of information about credit card fees known at the time of the sale would affect the manner in which revenue is booked in the accounting records. However, whether the fees are known at the time of the sale or determined later, the end result should be the same.

Note: The following credit card examples shown do not include sales tax. If the gross sales amount included sales tax, these calculations would also need to factor in sales tax. Furthermore, these examples assume sales are subject to a 10% tax. If sales are subject to a 5% entertainment tax, the computation of net taxable sales would be adjusted accordingly.

#### **Example 1A: Licensee Knows Credit Card Fees at Time of Sale**

\$107,000 entire gross sale including tax collected  
\$7,000 credit card fees associated with these sales

	\$107,000	Gross sales
Subtract	<u>7,000</u>	Credit card fees paid not subject to LET
	\$100,000	
Divided by	<u>1.1</u>	To remove entertainment tax
	<b><u>\$ 90,909</u></b>	<b>Net LET taxable revenue</b>

#### **Example 1B: Licensee Does Not Know Credit Card Fees at Time of Sale**

	\$107,000	Gross sales
Divided by	<u>1.1</u>	To remove entertainment tax
	<b><u>\$ 97,273</u></b>	

Once the licensee finds out that credit card fees were \$7,000, net LET revenue would be calculated as follows:

$$97,273 - (7,000/1.1) = \mathbf{\$90,909 \text{ Net LET taxable revenue}}$$

Note that either method will produce the same results:

$$(107,000 - 7,000)/1.1 = 90,909$$

or

$$(107,000/1.1) - (7,000/1.1) = 90,909$$

Assuming that in the above examples that the \$107,000 in gross sales also included \$6,000 in gratuities, the net taxable revenue needs to be further reduced by \$5,454 (\$6,000/1.1). Summarized, the calculation in 1A would be  $(107,000 - 7,000 - 6,000)/1.1 = \$85,455$ . The calculation in 1B would be  $(107,000/1.1) - (7,000/1.1) - (6,000/1.1) = \$85,455$ .

### Fees or Adjustments Not Deductible

The various credit/debit card fees and rates can be found on the credit/debit card statements. While percentage rates and flat fees per transactions can be deducted, monthly fees that are not directly related to the sales process or are not part of the actual credit card process cannot be deducted. The following rules apply:

1. Monthly Service Fee — This is usually not more than \$10. It can also be a rental fee for credit card swipe machine. It is never deductible.
2. Chargeback Fees — This fee may be imposed when a patron protests a charge. The credit card company investigates the protest, eventually awards the charge to the casino, and then assesses the casino a fee for their investigative efforts (e.g. \$10). Chargeback fees may only be deducted to the extent that the licensee can show that the fee related directly to a sale of an entertainment item. Fees may not be prorated between entertainment and non-entertainment sales.
3. Facility, Phone or Service Fees — These are additional fees that the licensee may charge the patron. Since the licensee retains this fee, it would be subject to entertainment tax and would not be deductible.
4. Voice Authorization Fees — This is when the licensee must call in and talk to a representative to get the credit card authorized. The same rules as stated in #2 above apply.

### DISCOUNT SHOW TICKET SALES

**General Note for all Examples:** Be sure to consider the facility where the ticket is sold, because a 10% tax rate is applicable for facilities with less than 7,500 maximum occupancy and a 5% tax rate is applicable for facilities with 7,500 or greater maximum occupancy.

Various licensees sell show tickets at a discount to wholesalers who in turn sell the tickets to individuals for a price that normally includes a profit for the wholesaler. In most cases, the amount received by the licensee includes the price of admission, sales tax, tip, and entertainment tax. However, if tickets are sold by an affiliate of the licensee (or an affiliate of the company running the entertainment venue), pursuant to NAC 368.450(4)(b) taxable revenue is based on

the amount collected from the customer, even if the company making the sale retains a portion of the ticket proceeds.

The licensee should pay tax on all tickets for which it has received payment, either directly from the patron or the wholesaler. The tax, therefore, would be due even though the patron did not redeem the ticket unless the amount was refunded to the patron.

### **DISCOUNT SHOW TICKET TERMS**

The following terms are applicable to discount show tickets:

<b>Bill to wholesalers</b>	Wholesalers that are billed (usually through accounts receivable) for discount show tickets that were redeemed at the casino. In that the licensee does not receive payment for unredeemed tickets, there is no tax due on unredeemed discount show tickets.
<b>Discount show ticket</b>	A ticket to a show for which the licensee receives an amount less than the retail price of the show, with the entity selling the ticket keeping the difference as compensation for selling the ticket.
<b>Discount show ticket wholesaler</b>	A person (or agency) that sells show tickets to the public for the licensee and pays the licensee an amount per ticket that is less than the retail price (i.e., a discounted price).
<b>Prepay wholesalers</b>	Wholesalers that purchase a block of discount show tickets that the wholesaler will in turn sell to the public. In this case the licensee receives revenue for a block of tickets whether the tickets are redeemed or not. Because the licensee receives payment for all tickets, tax must be paid on the unredeemed tickets.

<b>Redeemed discount show tickets</b>	Show tickets purchased by a customer from a wholesaler that were used to attend a show. Generally, an amount is included in entertainment revenue for the ticket at the point in time that the ticket is used.
<b>Unredeemed discount show tickets</b>	Show tickets for which the licensee received payment but were not used to see the show.
<b>Wholesaler's commission</b>	The difference between the retail price of the show and the amount paid to the licensee by the wholesaler.

**DISCOUNT SHOW TICKET EXAMPLES**

The following three examples of discount show ticket breakdowns use the following variables (note that drinks are included and the licensee does not allocate between the admission charge and the price of the drink, thus the entire amount is subject to the sales tax):

Retail Price of Show - R (Net of tax & tip)	\$14.95
Entertainment Tax - 10%	
Sales Tax - 8.1%	
Gratuity Rate - 17% (Determined through a review of the licensee's union contract or other written agreements)	
Discount Price - DP (Amount received by licensee from wholesaler)	\$14.50

**Example #1:** Licensee pays gratuity based upon retail price:

DP	\$14.50
Gratuity (\$14.95 x .17)	<u>- 2.54</u>
	\$11.96
Net of sales and entertainment tax (1 + 8.1% + 10%)	<u>÷ 1.181</u>
Revenue subject to tax	<u>\$10.13</u>

**Example #2:** Licensee pays gratuity based upon discount price:

DP	\$14.50
Gratuity (\$14.50 x .17)	<u>- 2.47</u>
	\$12.03
Net of sales and entertainment tax (1 + 8.1% + 10%)	<u>÷ 1.181</u>
Revenue subject to tax	<u>\$10.19</u>

**Example #3:** Licensee pays gratuity based upon discount price net of gratuity, sales tax and entertainment tax.

DP	\$14.50
Net of sales and entertainment tax (1 + 8.1% + 10%+17%)	<u>÷ 1.351</u>
Revenue subject to tax	<u>\$10.73</u>

**Example #4:**

*A show ticket is sold to a casino patron by another licensee. This show ticket is priced at \$10.00 plus taxes and gratuity for a total of \$13.51. The show includes 2 drinks; no drink prices are specified. In addition, the licensee selling the ticket is given a \$3.00 commission for each ticket it sells and remits the net amount upon billing.*

\$13.51	Full retail, inclusive
<u>- 3.00</u>	Commission
<u>\$10.51</u>	Amount received
\$10.51	Amount received
- 1.70	Gratuity (\$10.00 x 17% contractual rate)
<u>- .81</u>	Sales tax (\$10.00 x 8.1%)
<u>\$ 8.00</u>	Entertainment taxable base plus LET
<u>\$8.00</u>	= \$7.27 Revenue subject to entertainment tax
1.1	

**Example #5:**

A show ticket is sold at a discount to wholesalers. The discounted ticket contains a statement that taxes and gratuity are included and also that the patron will receive 2 drinks (the same as any other show ticket sold directly to the patron). The amount the licensee receives from the wholesaler for each ticket is \$5.00, paid at the time of purchase. The ticket is normally sold at a retail price of \$10.00 plus taxes and gratuity.

\$5.00	Amount received
<u>- 1.70</u>	Gratuity (\$10.00 x 17% contractual rate)
\$3.30	Base price plus taxes
<u>\$3.30</u>	= \$2.79 Entertainment (and sales) taxable base price
1.181	

Note that in both examples the sales tax payable is computed on the amount the licensee or the licensee's agent charges for the ticket. If the prepay wholesaler resells the ticket, that wholesaler will be responsible for any additional sales tax, not the licensee.

**Package Program Breakdowns**

Package Name \_\_\_\_\_

Period in Effect \_\_\_\_\_

Package Components	Applicable Tax and Gratuity Rate	Advertised (Street) Price  (R)	Net Retail Price  (S)	Nonprofit Costs  (C)	CET Items  (E)	W/P or Comments
Room						
Room Tax						
Show Ticket						
Sales Tax						
Entertainment Tax						
Gratuity						
Bellman						
Food						
Sales Tax						
Gratuity						
Free Play						
Keno						
Slots						
Table Games						
Other						
Miscellaneous						
<b>Total</b>						
Sales Price						
Travel Agent Commission						
Other						
<b>Net Amount Received</b>						
<b>Calculated Taxable Amount Per Package: \$ _____ Taxable Amount Used by Licensee: \$ _____</b>						

# **CAGE & CREDIT**



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**GENERAL**

The Nevada Revised Statutes and the Regulations of the Nevada Gaming Commission and State Gaming Control Board emphasize that gross revenue is, predominantly, calculated on a cash basis. The impact of credit play on gross revenue is no exception.

Generally, gross revenue does not arise from credit play until a licensee either collects on a previously issued credit instrument, pursuant to **NRS 463.0161(1)(b)**, or until a licensee fails to comply with the credit extension and collection procedures codified in gaming regulations and statutes. Therefore, it is necessary to test the existence of receivables, including older accounts, to ensure that collections have not been made without the remittance of the related gaming fees. Credit instruments must also be tested to ensure that if they have not yet been paid or, if the debt was settled, that the unpaid portion is not required to be included in revenue due to the licensee's failure to comply with the regulations and statutes.

This approach seems rather simplistic at first but then realize that the effects of any credit issued at a table game, for instance, must be excluded from that game's revenue. Also, any gaming credit issued at the cage is considered a reduction of gross revenue in the month of issuance. Finally, the increase or decrease in a licensee's monthly returned check balance is a decrease or increase, respectively, to gross revenue.

Under **Regulation 6.120** the adjustment to gross gaming revenue for credit play on the NGC-1 tax report is as follows (these captions correspond to the captions on the actual NGC-1 forms):

Line 2 - ADJUSTMENTS:

Line 2A	Cage credit issued	- (\$xxxx)
Line 2B	Collections in areas other than the pit	+ \$xxxx
Line 2C	Net of returned checks	+/- \$xxxx
Line 2D	NET ADJUSTMENTS (Line 2A + 2B +/- 2C)	<u>\$xxxx</u>

The amounts represent:

**Line 2A** - The amount of credit that was issued from the cage for the month. Credit issued in the pit should not be included. Note that pit credit need not be "deducted" in this fashion because the table games reported taxable win figure excludes the value of the chips given to patrons in exchange for credit instruments issued in the pit. However, if the cage issues credit, the presumption is that the related chips (or perhaps tokens) were wagered. As such, a portion of the chips on the table or the tokens in the machine (other gaming areas could be affected as well) are actually assets of the licensee and therefore should not be considered in the computation of revenue until the patron pays the licensee the value of those chips. Hence, the basis for the deduction for cage credit issues.

**Line 2B** - The total of all recoveries on credit instruments whether the instrument was originally issued in the pit or the cage. This amount does not include recoveries on returned checks or pit payments. Note that this adjustment is the method by which revenue is recognized for recoveries, except those occurring in the pit. If a payment is made in the pit, chips would be placed in the table tray or cash would go in the drop box. Accordingly, the

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formula for computing taxable table games win would cause these types of recoveries to be recognized without further adjustment.

**Line 2C** - The net of returned checks pertaining to transactions during the applicable month. Such items as the cashing of personal checks, payroll checks, traveler's checks, etc. by the licensee which are returned by a financial institution unpaid fall into this category. The figure would be negative for instruments returned during the month and positive for items recovered during the month (i.e., if recoveries are greater than items returned unpaid, the figure would be positive). The basis for the net of returned check deduction is the same as for cage credit issuances as described above.

Note that the NGC-1 form is the tax report form that contains the actual computation of revenue subject to tax. Key information relevant to statistical analysis is required to be submitted on form NGC-31. Included on this form is information regarding cash drop per **Regulation 1.095**, pit credit issuances, and pit credit repayments in cash and in chips. All of this information is used to compute statistical data. Credit transactions occurring in the pit directly affect table games revenue and must be fully understood in order to do a valid analysis of the win-to-drop percentages.

Unlike credit play conducted through the issuance of markers, the use of front money is not technically considered credit play as the patron is playing against money deposited with the licensee. Cash deposit/withdrawal slips (CDWs) closely resemble a marker but merely evidence increases or decreases to a front money account. Also, CDWs may be actual slips of paper or electronic debits and credits. The accounting treatment becomes quite important in the process of ensuring that pit credit issues and repayments have been properly recorded and result in the proper computation of statistical win. While CDWs cannot be treated the same for purposes of evaluating compliance with **Regulation 6.120**, if the licensee does not treat a CDW the same as a credit transaction for statistical purposes, statistics may be skewed.

The auditor should determine the existence of any situations in which the licensee may give away chips or cash to a customer and record this information on documents ordinarily used to evidence credit transactions such as marker forms and settlement forms. Typical examples of such activity include airfare reimbursements, "gift chip" payments, and front money rebates, but the auditor needs to be aware that other types of activities may also be reflected in a similar manner. Giveaways are not credit related transactions and, accordingly, licensees should not reduce credit collections for these promotional payments. This is an area where both form and substance must be considered.

**OUTSTANDING CREDIT INSTRUMENTS TO BE INCLUDED IN GROSS REVENUE**

**NRS 463.371(1)** requires the computation of gross revenue to include the face value of any credit instrument accepted on or after July 1, 1981, if, within 5 years after the last day of the month following the month in which the instrument was accepted by the licensee, the board determines that:

- a. The instrument was not signed by the patron or otherwise acknowledged by him in a written form satisfactory to the board;

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- b. The licensee did not have an address for the patron at the time of accepting the instrument, or, in lieu of that address, has not provided the board, within a reasonable time after its request, the current address of the patron to whom the credit was extended;
- c. The licensee has not provided the board any evidence that the licensee made a reasonable effort to collect the debt;
- d. The licensee has not provided the board any evidence that the licensee checked the credit history of the patron before extending the credit to him;
- e. The licensee has not produced the instrument within a reasonable time after a request by the board for the instrument unless it:
  - 1. Is in the possession of a court, governmental agency or financial institution;
  - 2. Has been returned to the patron upon his partial payment of the instrument;
  - 3. Has been stolen and the licensee has made a written report of the theft to the appropriate law enforcement agency; or
  - 4. Cannot be produced because of any other circumstance which is beyond the licensee's control;
- f. The signature of the patron on the instrument was forged and the licensee has not made a written report of the forgery to the appropriate law enforcement agency; or
- g. Upon an audit by the board, the licensee requested the auditors not to confirm the unpaid balance of the debt with the patron and there is no other satisfactory means of confirmation.

The above does not apply to any credit instrument which is settled for less than its face amount to induce a partial payment, compromise a dispute, retain a patron's business for the future; or to obtain a patron's business if an agreement is entered into to discount the face amount of a credit instrument before it is issued to induce timely payment of the credit instrument; and the percentage of discount of the instrument is reasonable as compared to the prevailing practice in the industry.

**CREDIT CHECKS [REGULATION 6.120(2)(a)]**

The licensee is required to document, prior to extending credit, the patron's established credit history to provide evidence of the patron's credit worthiness. The information obtained should not be entirely derogatory. The following are the acceptable sources the licensee can utilize in obtaining the patron's credit history [see **Regulation 6.120(2)(a)**]:

- 1. **Bona fide credit reporting agency.** If the credit reporting agency indicates that there is no record for this patron, the credit check is not sufficient to comply with this requirement. If the response is that there is no derogatory information, this is sufficient. If only derogatory information is obtained, then **Regulation 6.120(2)(a)** is not satisfied because the information obtained cannot be "entirely derogatory." If the credit card does not indicate the date the credit check was performed, this information should be obtained from the reporting agency.
- 2. **A legal business that has extended credit to the patron.**
- 3. **A financial institution at which the patron maintains an account.** Merely calling the bank would not be a valid credit check. The licensee must verify the existence of the account. Typical notations include remarks like "low fours" (meaning the patron has an account in the thousands of dollars, probably around one- to four thousand dollars) or

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“low fives” which would indicate that the patron had a balance in the tens of thousands of dollars. Note that if the response by the bank is that the patron does not have an account, the credit check is not valid and a further credit check must be made in order to comply with this requirement.

4. **Licensee's records indicating previous credit transactions with the patron showing that the patron has paid substantially all of his credit instruments (referred to as a “play and pay” credit check).** The Board uses a "substantially all" guideline of 80% of all previously issued credit. A valid play and pay credit check does not exist if a patron re-pays all credit extended on the first visit but fails to pay at least 80% of all credit extended during subsequent visits. Finally, front money transactions are not considered play and pay transactions and do not constitute a credit check. Also note that the licensee must otherwise document that it has a reasonable basis for the amount extended (the regulation uses the phrase, “...and the licensee otherwise documents that it has a reasonable basis for placing the amount or sum placed at the patron’s disposal...”). This means that it would be inappropriate to conclude that because the patron had previous credit balances of up to \$1,000 that he was worthy of \$10,000 in credit.
5. **Informed by another licensee that extended gaming credit to the patron has been substantially paid.** The rules that apply for this type of play and pay credit check are those that apply to the licensee’s own history with the patron.
6. If credit information was unavailable from any of the sources 1 through 5 above for a patron who is not a resident of the United States, the licensee must obtain, in writing, information from an agent or employee of the licensee who has personal knowledge of the patron's credit background to establish a reasonable basis for the credit extension. Such documentation should be obtained at the time the credit was extended (or reasonably thereafter, i.e., within one day).
7. In the case of personal checks, the licensee has examined and recorded the patron's valid driver's license, or if a driver's license cannot be obtained, some other document acceptable as a means of identification when cashing checks, and has recorded a bank check guarantee card number or credit card type or has documented one of the credit checks.
8. In the case of third party checks for which cash, chips, or tokens have been issued to the patron or which were accepted in payment of another credit instrument, has examined and has recorded the patron's valid driver's license, or if a driver's license cannot be obtained, some other document normally acceptable as a means of identification when cashing checks and has for the check's maker or drawer, performed and documented one of the credit checks. All checks of credit history must be documented in records pertaining to the patrons.

**COLLECTION EFFORT - REGULATION 6.120(3)(a)**

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This section of the regulation requires that the licensee make and document a valid collection effort at least once every 90 days during the period the credit instrument is considered collectible. Absent any information to the contrary, any instrument appearing on an "active" listing is considered collectible. Thus, collection efforts must continue until an account is officially written off; reserving the account through the Allowance for Doubtful Accounts does not constitute uncollectibility. Note, however, that some licensees may allow the unpaid portion of a settled account to remain on an active listing pending an official transfer to the write-off listing. If the patron has complied with the terms of the settlement by paying the portion accepted as payment in full by the licensee, there is no justification for deeming the unpaid portion collectible for this purpose.

Collection attempts may be made in a variety of ways and the regulation does not specify where and in what form the documentation must exist. Therefore, discussions with collection personnel about the various records that may contain such information and about any periods of time for which the records you have examined do not reflect a collection attempt will avoid any surprises.

Certain instances exist where it would be inappropriate to fault the collection effort. These would include, but are not limited to:

- Bankruptcy, incarceration or death of patron.
- Patron has moved and left no forwarding address.
- Account was transferred to an independent collection agency or independent legal counsel. (However, in-house legal counsel would be viewed the same as an in-house collection department.)

The licensee must furnish independent verification of such circumstances. Additionally, adequate collection effort must be demonstrated for any periods prior to the licensee acquiring knowledge of death, bankruptcy, or the patron moving without leaving a forwarding address, or to the transfer of accounts to an independent collection agency or independent legal counsel. That is, while you may recognize the licensee's knowledge of the above circumstances as valid reasons to discontinue ordinary collection efforts once the information was known to them, it would not excuse their failure to attempt collection prior to gaining that knowledge.

**FORGERIES - REGULATION 6.120(3)(c)**

The licensee must submit a written report of any forgery of the patron's signature on the instrument to a law enforcement agency with jurisdiction to investigate the forgery. Reporting the forgery to the Board does not satisfy this requirement. The report of forgery must contain essentially the same information as is required for reports of theft.

Financial institutions may use the term "unauthorized signature" to mean that the name of the person signing the instrument did not appear on the signature card for the account to which the instrument relates. For example, assume Joe Smith signs a marker and the licensee presents this marker for payment from an account held by Mary Smith, his wife (because when credit was extended Joe Smith listed this account on the credit card). The bank won't pay if Joe Smith's name isn't on the signature card, but this does not mean that someone forged a signature on the

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**CAGE AND CREDIT**

instrument. It merely means the patron to whom credit was extended did not have lawful access to the funds in the account.

Some financial institutions will use the term “unauthorized signature” to mean the signature on the instrument does not match the signature on the signature card. In such a case, the instrument may have been forged. If the instrument was purportedly a forgery, then the licensee must have filed a report.

**SETTLEMENTS**

A licensee may settle a credit instrument for less than its face value. **Regulations 6.120(5)-(7)** address such settlements. A marker settlement must be documented within 30 days of the settlement for it to be acceptable. For a settlement form to be considered complete, **all** information listed in **Regulation 6.120(6)(b)** must be included on the form. Assessments for settled markers arise when some portion of the settlement requirements of **Regulation 6.120(5)-(7)** has not been complied with and the casino has also failed to comply with subsections 2 and 3 with respect to the marker(s) to which the settlement relates (refer to the language in subsection 5).

**DISCOUNTS**

Many licensees offer credit discounts to attract and retain customers and to encourage higher wagering activity. These discounts, which are merely another form of settlement pursuant to **Regulation 6.120(5)-(7)**, are structured in different ways by different licensees, the method of which may affect the deductibility of the discount. In general, discounts applied to customers' outstanding credit balances are deductible, while discounts paid out to customers in cash are generally considered promotional expenses which are not deductible.

While many credit discounts are negotiated at the conclusion of the patron's stay, some licensees offer prearranged discounts whereby the licensee and the patron enter into an agreement which stipulates the terms of all future discounts (for example, a fixed percentage of the patron's credit line or a fixed percentage of the patron's wagering losses). These types of discounts are generally deductible provided the licensee properly completed settlement forms pursuant to **Regulation 6.120(6)** to document the discounts that were granted. The existence of a signed discount agreement does not waive the requirement for a properly completed settlement form.

# **ELECTRONIC DATA PROCESSING**

VERSION 1  
OCTOBER 1, 2000

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**ELECTRONIC DATA PROCESSING**

**ELECTRONIC DATA PROCESSING TERMINOLOGY**

The following terminology is applicable to electronic data processing:

**Associated  
equipment**

**NRS 463.0136.** Any equipment or mechanical, electromechanical or electronic contrivance, component or machine used remotely or directly in connection with gaming, any game, race book or sports pool that would not otherwise be classified as a gaming device, including dice, playing cards, links which connect to progressive slot machines, equipment which affects the proper reporting of gross revenue, computerized systems of betting at a race book or sports pool, computerized systems for monitoring slot machines and devices for weighing or counting money;

or

A computerized system for recordation of sales for use in an area subject to the casino entertainment tax pursuant to **NRS 463.401**.

The electronic data processing MICS address general controls over the EDP environment as a whole as well as specific controls as they relate to each revenue area. These specific controls include controls over personnel access listings for each computer system and controls over system passwords. These controls are examined in conjunction with other audit procedures performed for each revenue area.





# **MISCELLANEOUS REGULATIONS**

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**MISCELLANEOUS REGULATIONS**

**General**

One of the main goals of the Nevada Gaming Commission and the Gaming Control Board is to ensure that gaming properties are operated in an honest and reputable manner. Throughout the state's history there have been those unfortunate occasions when individuals or groups of individuals have tainted the state's image by unduly influencing the operation of one of its gaming licensees.

Allegations of mob control, many of which were supported by federal indictments and criminal convictions, over casinos in the 1970s and 80s spurred the reality that the gaming industry in Nevada is not impregnable to the influence of unsavory individuals. Events such as these show why it is important for the Commission and Board to monitor the individuals and companies who operate and/or influence Nevada gaming operations.

Various compliance auditing procedures are performed that are meant to discover activity (e.g., loans, changes in ownership, etc.) that may have not been properly reported to or approved by the Board or Commission as governed by specific regulations.

The following regulations/statutes pertain to ownership and monitoring activities:

<u>Regulation/ Statute</u>	<u>Activity</u>
3.020	Ownership of premises where gaming conducted.
3.100	Employee report.
5.050	Information to be furnished by licensee's (participation in profits).
5.120	Finders' fees.
6.040	Accounting records.
6.050	Records of ownership.
8.020	Transfer of interest among licensees (change in ownership).
8.030	Transfer of interest to stranger to license (change in ownership, transfer to a stranger).
8.050	Escrow required (pertains to acquisition of interest in gaming operation).
8.130	Transaction reports (loans/leases).

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<u>Regulation/ Statute</u>	<u>Activity</u>
<b>14.190</b>	Approval to sell or dispose of gaming devices.
<b>15.510.4-1</b>	Statement required by <b>NRS 463.510.4</b> (stock certificates).
<b>15A.110</b>	Required provisions in certificate of limited partnership
<b>15B.110</b>	Required provisions in articles of organization
<b>NRS 463.160(1)(c)</b>	Licenses required; unlawful to permit certain gaming activities to be conducted without license; exceptions.
<b>NRS 463.162</b>	State gaming license required where equipment, service or property delivered or furnished for gaming interest or revenue; exemptions.
<b>NRS 463.169</b>	Registration or licensing of persons conducting certain tournaments or contests in association with gaming licensee; termination of association.
<b>NRS 463.530</b>	Individual licensing of officers and directors of corporations other than publicly traded corporation; other persons required to be licensed individually.
<b>NRS 463.540</b>	Limitation on certain powers of corporations other than publicly traded corporations after licensing; approval of commission.
<b>NRS 463.567</b>	Prior approval by commission required for disposition of interest; restrictions on unsuitable persons; statement of restrictions required on certificate. (Limited Partnerships)
<b>NRS 463.569</b>	Individual licensing of partners and other persons. (Limited Partnerships)
<b>NRS 463.5733</b>	Prior approval by commission required for disposition of interest; restrictions on unsuitable persons; statement of restrictions required on certificate. (Limited Liability Companies)
<b>NRS 463.5735</b>	Individual licensing of members, managers and other persons. (Limited Liability Companies)
<b>NRS 463.5736</b>	Required reports and statements; income tax returns. (Limited Liability Companies)

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**Regulation/  
Statute**

**Activity**

<b>NRS 463.650</b>	License required (pertains to the licensing and regulation of manufacturers, sellers and distributors of gaming devices or cashless wagering systems).
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**Regulation 3.100 Employee Report**

The search for reportable employees is designed to determine those individuals who are reportable under **Regulation 3.100**. The auditor should be aware of all the criteria for someone to be considered a reportable employee while performing other relevant audit procedures. Additionally, **Regulation 3.110** defines those employees who are listed or should be listed on the employee report as key employees. Note that pursuant to **Regulation 5.013** officers, directors, owners or key employees are not allowed to gamble at "their" licensed location, although it is permissible for them to play or wager on poker, panguingui or off-track pari-mutuel wagering.

**Regulation 8.130 Transactions**

One of the objectives is to determine whether the licensee has reported transactions as required by **Regulation 8.130**. The regulation specifically states the types of transactions that are reportable as well as listing several types of transactions that are not reportable. It also establishes specific dollar thresholds over which a transaction is reportable. Leases or financing agreements involving licensed manufacturers or distributors are not reportable. However, if the arrangements are "bucket buys" or participation agreements, the transaction is reportable pursuant to **Regulation 5.050**.

A compliance review in most cases is limited to the reporting entity, that is the company or business that is the licensed operator. However, publicly traded corporations holding an interest in a gaming licensee are required to comply with **Regulation 16** which requires certain information regarding stock ownership to be filed with the Board.

Although there may not be specific procedures regarding the compliance with a particular regulation, you should be alert to any noncompliance by the licensee. An example of this is **Regulation 14**, regarding the Board's approval of associated equipment. If it is noted that the property purchased, for example, a new computer system for the cage during the last year, compliance with **Regulation 14** should be verified.

**OTHER REGULATIONS**

**Regulation 5.170 Problem Gambling**

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This regulation requires each licensee to post or provide written materials concerning the nature and symptoms of problem gambling, and to implement procedures and training for all employees who directly interact with gaming patrons in gaming areas. The regulation also requires that a program be implemented for those patrons who chose to self-limit their access to the issuance of credit, check cashing or direct mail marketing by that licensee.

**Regulation 6.110(2) Hopper Load Adjustments**

**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. If the amount in the hoppers is less than the initial fills, the appropriate adjustment would be to decrease the asset account (hopper loads) with a credit entry and also decrease slot revenue with a debit entry. If the amount in the hoppers is greater than the initial fills, the opposite entry would be made.

**Regulation 6.130(1)(b) Count Personnel List**

Following the end of each calendar quarter, licensees must submit a list to the Board of all employees authorized to participate in the soft and/or hard counts and those employees authorized to be in the count room during the count. This list should include all employees who were in the count as of the end of the quarter and also all those who were in the count at any time during the quarter.

**Regulation 6.150 Minimum Bankroll**

At the end of this chapter you will find the bankroll verification worksheet used when evaluating compliance with **Regulation 6.150**. The "immediate exposure" column is intended to function as an analysis of current cash availability, reflecting total cash on hand, less the games and slot machine cash requirement, as of the date the review is performed.

Cash available for the "cash on premises" figure is restricted to cash and cash equivalents which are readily available for customer payouts. Coin in slot hoppers cannot be used in this calculation. The "cash in banks" figure should reflect book balance, as opposed to the bank's balance, to recognize any outstanding checks. Consideration will be given to restrictions on cash in banks, other than cash held for the restricted race/sports book reserve requirement and the progressive keno game bank deposit. Amounts in trust funds or other bank accounts which do not allow unrestricted access should not be included in "cash available".

The "thirty-day exposure" column functions as a cash flow statement, in that cash flow for one month is added to total cash on hand at the time of the bankroll verification, to project a cash position at the end of thirty days. Cash flow, as used here, includes revenues and expenses of all departments, not just those which are gaming-related. Gross revenues should exclude

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complimentaries. As appropriate, delinquent payables or other delinquent debt payments may be another consideration in determining cash requirement if payments on these payables is required.

The computations used to determine the cash requirement for licensed gaming activity are as follows:

1. The average daily fill for each type of table game is determined by dividing total fills, as reflected in the accounting records, by the number of days in that month. This is multiplied by 2 days to approximate the cash needed to operate table games.
2. The slot machine reserve amount, other than those involving periodic payments as described in item 5 below, is determined by totaling items (a) and (b), as applicable:
  - a. The average daily fill/jackpot amount (which may be determined from the most recent NGC-31 by subtracting "gross revenue" from "drop" and then dividing the result by the number of days in the month), times the greater of:
    - (1) The number of days until the next slot drop; or
    - (2) Two days.
  - b. The greater of:
    - (1) 20% of the total current progressive slot liability; or
    - (2) The single highest available progressive or nonprogressive jackpot.
3. The keno game reserve is the standard keno game limit plus the current progressive keno liability.
4. The race and sports book reserve is computed as required by **Regulation 22.040**, unless otherwise waived or a lesser/greater amount is required by the Chairman.
5. The present value of the total sums owed to patrons for annuities or periodic payments as permitted under **Regulation 5.115** must be included as a cash requirement until those sums are fully funded.
6. Other progressive payouts include 100% of the progressive payout liability from licensed games other than slots and keno.

**Regulation 12.070 Redemption and Disposal of Discontinued Chips and Tokens**

A licensee that is permanently removing chips or tokens from circulation, including a licensee that ceases operations, must prepare a plan for redeeming and destroying the chips or tokens.

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The plan must be approved by the Chairman of the Gaming Control Board prior to the plan's implementation.

**NRS 463.165 Denied Gaming Applicants**

Gaming licensees may not employ or enter into any agreement or contract with a person who has been found unsuitable, denied a license or whose license was revoked by the Commission. In order for licensee personnel to know who these denied applicants are, the Board issues a "Listing of Individuals who have been Denied a Gaming License, been Found Unsuitable for Licensure or had a Gaming License or Finding of Suitability Revoked by the Nevada Gaming Commission". This list will also contain the names of any business organization under the control of any such persons known to the Board.

**Internet Gambling**

Interstate gambling is prohibited under federal law. Further, NRS 465.091 through 465.094 allows only race books or sports pools (both pari-mutuel and nonpari-mutuel) to accept or receive wagers placed through a "medium of communication". A medium of communication includes, but is not limited to, mail, telephone, television, telegraph, facsimile, cable, wire, the Internet or any other similar medium. Because there is no sure way to tell if a person wagering via the Internet is physically in Nevada, Internet race book and sports pool gambling is prohibited by Regulation 22. A gaming licensee's website should be reviewed annually for statutory and regulatory compliance.

**Regulation 6.150 Minimum Bankroll Computation**

	<u>Immediate Exposure</u>	<u>Thirty Day Exposure</u>
<u>Cash available:</u>		



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Cash on Premises	\$	
Less: Safekeeping and Front Money	\$ ( )	
Cash in Banks	\$	
Progressive Keno Game Bank Deposit	\$	
Restricted Race/Sports Book Reserve	\$	
Cash - Other	\$ _____	
Total Cash on Hand	\$	\$
Gross Revenues (1 month)		\$ _____
Total Cash Available		\$
<b><u>Cash Requirement:</u></b>		
Operating Expenses (1 month)		\$
Payroll (1 month)		\$
Debt Service (1 month)		\$ _____
Licensed Gaming Activity Cash Requirement (1)	\$ ( )	
Other	\$ ( _____ )	
Total Cash Requirement	\$ _____	\$ _____
Cash Excess/(Deficiency)	\$ _____	\$ _____

(1) See Licensed Gaming Activity Cash Requirement calculation on next page.

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<b>Note:</b>				
<b>(1) Licensed Gaming Activity Cash Requirement</b>				
<b>Games</b>	<b>Average Daily Fill</b>	<b>X</b>	<b>2 Days</b>	
Craps	\$	X	2	\$ ( )
“21”	\$	X	2	\$ ( )
Roulette	\$	X	2	\$ ( )
Baccarat	\$	X	2	\$ ( )
Big 6	\$	X	2	\$ ( )
Other	\$	X	2	\$ ( )
Total Games Exposure				\$ ( )
Slot Machine Reserve				\$ ( )
Keno Game Reserve				\$ ( )
Race/Sports Book Reserve				\$ ( )
Periodic Payments Owed				\$ ( )
Other Progressive Payouts				\$ ( )
Total				\$ ( )