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Proposed audit and accounting guide: gaming; Exposure draft (American Institute of Certified Public Accountants), 2008, September 10

American Institute of Certified Public Accountants. Accounting Standards Executive Committee

EXPOSURE DRAFT

PROPOSED AUDIT AND ACCOUNTING GUIDE

GAMING

SEPTEMBER 10, 2008

Issued by the Accounting Standards Executive Committee
American Institute of Certified Public Accountants

Comments should be received by December 9, 2008, and sent by electronic mail to smacey@aicpa.org or addressed to Sharon Macey, Accounting Standards, AICPA, 1211 Avenue of the Americas, 19th Floor, New York, NY 10036

September 10, 2008

Accompanying this letter is an exposure draft of the proposed Audit and Accounting Guide *Gaming*.

Certain topics not previously included in the 2006 AICPA Audit and Accounting Guide *Casinos* have been included in this proposed guide. Examples of such topics include the following:

a. Guidance for governmental gaming entities
b. Illustrative financial statements and footnotes of a governmental gaming entity
c. Illustrative guidance when accounting for guarantees
d. Guidance regarding The New Jersey Casino Reinvestment Development Authority
e. Guidance for currency transaction reporting in the gaming industry

Please note that portions of appendixes A, "Independent Auditor's Report," and D, "Other Requirements," of the proposed guide that contain auditing guidance are not included in this exposure draft. In addition, this exposure draft does not include general and specific auditing considerations, analytical procedures, internal control considerations, and reporting.

The purpose of the exposure draft is to solicit comments from preparers, auditors, and users of financial statements and other interested parties. The Accounting Standards Executive Committee (AcSEC) invites comments on all matters in the proposed guide and particularly on the issues outlined in the following paragraphs. In their comments, respondents should refer to specific paragraph numbers and include reasons for any suggestions or comments.

Incremental Generally Accepted Accounting Principles (GAAP)
Issue 1: As explained in the notice to readers of the proposed guide, the previous edition of this guide as of May 1, 2006, contained accounting principles that are not promulgated elsewhere (referred to as *incremental GAAP*). The 2006 edition of this guide is not superseded because it remains a source of level *b* GAAP and because the proposed guide brings forward incremental GAAP from the 2006 edition. Appendix G of the proposed guide provides analysis of how and where incremental GAAP guidance from the 2006 edition appears or does not appear in the revised guide.

a. In addition to the sections identified in appendix G, are there other sections of the 2006 edition that you believe contain incremental GAAP? If so, what are they?

Please refer to appendix G of the proposed guide.

Standing of the Proposed Guide in GAAP Hierarchy
Issue 2: As explained in the notice to readers of the proposed guide, the 2006 edition of this guide was deemed to be within category *b* of the hierarchy of sources of GAAP. The proposed guide, when finalized, would be

- within category *d* of the hierarchy of sources of GAAP **for nongovernmental gaming entities**, set forth in FASB Statement No. 162, *The Hierarchy of*

Generally Accepted Accounting Principles and, because of that, no transition guidance is provided in the proposed guide.

- within category *b* for chapters 1, “Industry Overview,” 2, “Guide Scope and Applicability,” 3, “Overview of Gaming and Gaming Related Revenue,” and 12, “Governmental Gaming Entities,” for **governmental gaming entities,** set forth in the AICPA’s Statement on Auditing Standards (SAS) No. 69, "*The Meaning of* Presenting Fairly in Conformity With Generally Accepted Accounting Principles" (AICPA, *Professional Standards*, vol. 1, AU sec. 411 par. .12).
- unless it conflicts with or contradicts Governmental Accounting Standards Board (GASB) pronouncements, **governmental gaming entities** should also consider the guidance in chapters 4–11 and appendixes A–D, and F of the proposed guide as other accounting literature set forth in SAS No. 69 (AICPA, *Professional Standards*, vol. 1, AU sec. 411 par. .13).

a. Is the explanation clear in the notice to readers? If not, how should the explanation be revised?

Please refer to the notice to readers of the proposed guide.

Scope of the Guide

Issue 3: The scope of the proposed guide expands the scope of the 2006 AICPA Audit and Accounting Guide *Casinos*. The proposed guide is transaction, not entity based. Therefore, entities other than those traditionally considered gaming entities, such as casinos, to the extent that such entities undertake gaming or gaming related activities (such as gaming equipment manufacturers to the extent that they operate wide area progressive slot machines), would be subject to the guidance in this proposed guide.

a. Do you believe the scope of the proposed guide is appropriate? If not, why?

Please refer to paragraphs 2.01–2.04 of chapter 2, “Guide Scope and Applicability,” in the proposed guide.

Application to Governmental Gaming Entities

Issue 4: As explained in the notice to readers and chapter 2, “Guide Scope and Applicability,” of the proposed guide, gaming activities of governmental entities are within the scope of the proposed guide. Boxed text included in the beginning sections of chapters 4–11 explain that guidance in those chapters applies to nongovernmental gaming entities and refers governmental gaming entities to guidance in chapter 12, “Governmental Gaming Entities.” The introduction to chapter 12 explains that governmental gaming entities apply accounting and financial reporting practices. It further explains that unless it conflicts with GASB pronouncements, the guidance in chapters 4–11 and appendixes A–D, and F of the proposed guide is considered “other accounting literature” under the criteria set forth in SAS No. 69.

Chapter 12 summarizes some areas of GAAP significant to governmental gaming entities and refers readers to the AICPA Audit and Accounting Guide *State and Local Governments* for additional guidance that should also be considered by governmental gaming entities. Appendix A of the proposed guide provides illustrative financial statements of a commercial casino and a tribal casino. Certain accounting and financial reporting differences between enterprise funds and discretely presented component units are highlighted using footnotes on the face of the tribal casino illustrative financial statements.

a. Does the proposed guide provide sufficient guidance on what applies to governmental and nongovernmental gaming entities?
b. Does the proposed guide adequately address areas of GAAP significant to governmental gaming entities?
c. Do you have comments on the format or content of the tribal casino illustrative financial statements provided in appendix A? If so, please provide comments.

Please refer to chapters 2–12, and appendixes A–D of the proposed guide

Base Jackpots
Issue 5: The proposed guide includes accounting for base jackpots that have been tentatively identified by the Financial Accounting Standards Board (FASB) staff as incremental GAAP. The incremental GAAP for base jackpots states

> *Base jackpots* are charged to revenue ratably over the period of play expected to precede payout; however, if immaterial, they are charged to revenue when established. Any portion of the base jackpot not charged to revenue when the jackpot is paid is charged to revenue at that time.

AcSEC believes that no accrual should be made for base jackpots on nonprogressive gaming devices, and that the proper accounting for nonprogressive jackpots is to record the jackpot when won by the customer as part of the normal revenue recognition cycle. AcSEC believes current practice is to not accrue, in accordance with FASB Concept Statement No. 6, *Element of Financial Statements* and FASB Statement No. 5, *Accounting for Contingencies*, that no past event has occurred to create a liability and is not aware of any historical practice or precedent to record accruals for jackpots when established. AcSEC has requested that FASB remove the current base jackpot guidance identified as incremental GAAP and to reflect current practice and AcSEC's preference.

a. Do you agree with AcSEC's preference? If not, why?
b. Do you agree that current industry practice is to not accrue nonprogressive jackpots until won by the customer? If not, why?

Please refer to "Summary of Selected Accounting Literature" paragraph 4.03 and "Accounting for Jackpots" paragraph 4.09 of chapter 4 of the proposed guide.

Base Progressive Jackpots
Issue 6: The proposed guide includes accounting for single machine progressive jackpots and local area progressive jackpots. AcSEC generally believes an accrual for the base progressive jackpot is only required at the point a jackpot is won by a customer, consistent with the conclusions related to nonprogressive jackpots in *Issue 5*. In the rare case where a gaming

jurisdiction requires the gaming entity to award the base progressive amount of the local area progressive jackpot, AcSEC believes an accrual is only required at the earlier of

a. the point at which a jackpot is won by a customer or
b. the point when the gaming entity decides to remove the progressive slot machine from the gaming floor.

For the incremental progressive amount, which is based on past play, AcSEC believes an accrual should be recorded over the time period in which the incremental progressive jackpot amount is generated, and the accrual should be calculated based on the level of customer play. AcSEC believes the offsetting debit should be one of the deductions to arrive at net gaming revenue.

a. Do you agree with AcSEC to not accrue the nonprogressive jackpot until won by the customer? If not, why?
b. As it relates to a gaming entity jurisdiction requirement to award the base progressive amount of the local area progressive jackpot, would you agree with AcSEC's belief that an accrual is only required at the earlier of point at which the jackpot won by a customer, or when it is decided to remove the progressive slot machine from the gaming floor? If not, why?

Please refer to "Accounting for Jackpots" paragraph 4.10 of chapter 4 of the proposed guide.

Participation and Similar Arrangements
Issue 7: The proposed guide does not include accounting for participating slot machines that has been tentatively identified by FASB staff as incremental GAAP. The incremental GAAP for participating slot machines states

> In some operations, the casino pays a percentage of the win of participating slot machines to slot machine lessors. In those cases, the win is usually recorded as revenue, and the participating fee is shown as an expense.

The proposed guide omitted the preceding incremental GAAP because there were several reasonable GAAP approaches depending upon the classification of the arrangement. Typically, gaming entities would report these arrangements as operating leases. Accordingly, the income statement classification of the fees paid pursuant to these arrangements should be an expense. Third party license arrangements are typically not leases. The fees paid pursuant to these arrangements should also be reported as an expense. If a wide area participation (WAP) arrangement is not a lease, gaming entities should report fees paid to the owner/seller pursuant to the arrangement as contra revenue consistent with the gaming entities' treatment of jackpots paid and payments for jackpot insurance.

a. Do you agree that the proposed guide should not include the previously mentioned incremental GAAP? If not, why?
b. Do you agree with the accounting conclusions for participation, third party, and WAP arrangements? If not, why?

Please refer to “Conclusions and Income Statement Presentation” paragraphs 5.06–5.08 of chapter 5 of the proposed guide.

Descriptions of Incentives
Issue 8: The proposed guide includes descriptions of various types of incentive programs, such as loyalty programs, cash coupons, downloaded credits, promotional chips, discounts on marker balances, and complimentaries.

a. Do you believe the descriptions encompass relevant significant or prevalent incentive programs utilized within the industry?
b. Are there other types of incentives which should be included in, and described, in this section?

Please refer to “Overview of Incentive Programs in the Gaming Industry” paragraphs 3.33–3.42 of chapter 3 of the proposed guide.

Classification of Incentives as Discretionary or Nondiscretionary
Issue 9: The proposed guide includes a threshold distinction between two types of incentives: (1) those incentives in which there is an obligation (by the gaming entity) to provide an incentive based on past play (nondiscretionary incentives), which consist primarily of point loyalty programs; and (2) those incentives in which there is not an obligation based on past play, but rather, the gaming entity can exercise discretion in awarding incentives (discretionary incentives).

a. Do you believe the distinction between discretionary and nondiscretionary incentive programs is appropriate?
b. Are further examples needed to provide practical guidance in determining whether an incentive is discretionary or nondiscretionary?

Please refer to “Overview of Incentive Programs in the Gaming Industry” paragraph 3.33 of chapter 3 of the proposed guide, as well as paragraphs 6.02–6.12 in chapter 6, “Loyalty and Incentive Programs,” of the proposed guide.

Nondiscretionary Incentives – Incremental Cost and Deferred Revenue Methods of Accounting
Issue 10: The proposed guide describes two methods of accounting for nondiscretionary incentives, primarily loyalty programs: (1) incremental cost and (2) deferred revenue.

a. Are the descriptions of the two methods appropriate and sufficiently detailed to enable gaming entities to apply these methods? If not, how should these descriptions be revised?
b. Given the fact that the deferred revenue method is expected to become more prevalent in the future and, considering the complexities involved in determining revenue under this method, do you believe the detailed guidance on how to calculate revenue under this method provided in the proposed guide is adequate?

Please refer to “Nondiscretionary Incentive Programs” in paragraphs 6.09–6.12 and “Specific Accounting for Various Nondiscretionary Incentives” in paragraphs 6.17–6.26 of chapter 6 of the proposed guide.

Reporting Free Play in a Similar Manner as a Cash Incentive in Nondiscretionary Incentive Programs

Issue11: The proposed guide includes a conclusion that free play is considered a cashable benefit rather than a deliverable in an exchange transaction because the economic effect of free play is to increase the customer’s odds of winning, which is akin to a refund of a portion of the amount charged to the customer (played). The proposed guide also notes that free play increases the customer’s odds of winning cash by providing a payout of economic benefits that are expected to be converted into cash through gaming activity. Therefore, the proposed guide requires the “cost” of free play under the incremental cost method to be reported as a reduction of revenue versus an expense.

a. Do you agree with the conclusion that free play is more like cash than it is like a free good or service?
b. Do you agree with the calculation of the value of the cost of free play included in the proposed guide? If not, why not?

Please refer to “Specific Accounting for Various Nondiscretionary Incentives” in paragraphs 6.17–6.19 of chapter 6 of the proposed guide.

Accounting for Complimentaries Under the Incremental Cost Method

Issue 12: The proposed guide requires that the cost of complimentaries be accrued in a nondiscretionary program because to the extent that a customer is entitled to those complimentaries, the gaming entity has a present obligation to transfer economic benefits to the customer. The proposed guide requires the cost of the complimentaries to be recorded as an expense.

a. Do you agree with the conclusion that the cost of complimentaries provided in a nondiscretionary incentive program should be recorded as an accrual under the incremental cost method? If not, why not?
b. Do you agree with the conclusion that the cost of complimentaries provided in a nondiscretionary incentive program should be recorded as an expense? If not, why not?

Please refer to “Complimentaries Offered Through Nondiscretionary Loyalty Programs” in paragraphs 6.22–6.26 of chapter 6 of the proposed guide

Amounts Remitted to a Manager for Managing Properties for Third Parties

Issue 13: The proposed guide describes that amounts remitted to a manager of a managed property for third parties would be reported as either loans payable by, or revenue of, the managed property. AcSEC believes that the factors outlined in Emerging Issues Task Force (EITF) Issue No. 88-18, "Sales of Future Revenues," are among the considerations to be evaluated when determining the appropriate classification of such balances.

a. Do you agree that these remitted amounts can be reported as either loans payable or revenue of the managed property? If not, why?
b. Do you agree that the factors outlined in EITF No. 88-18 should be considered in the evaluation when determining the appropriate classification? If not, why?
c. Is there other guidance used when considering the appropriate classification?

Please refer to "Accounting by the Managed Property" in paragraph 8.19 of chapter 8 of the proposed guide

Initial Recognition and Measurement of a Guarantee
Issue 14: The proposed guide discussed the following possibilities for the classification of the offsetting debit to be recorded when a liability for fair value of a guarantee is recorded.

- As a receivable, representing the portion of the management fee that should be recognized separately
- As a contract acquisition cost asset, representing an economic sacrifice that the guarantor made with an aim toward acquiring the contract and the ability to earn management fee revenue.

AcSEC's preference in circumstances in which the manager guarantees all or part of the debt of a gaming entity in conjunction with a management agreement is for the manager to record a contract acquisition cost asset as the offsetting debit when the manager recognizes the liability at the inception of the guarantee. AcSEC believes that the gaming entity owes the manager no money at the inception of the contract and, therefore, reporting the offsetting debit as a receivable would not be preferable because receiving fees for any element of the management agreement is contingent on the occurrence of future events. AcSEC also believes it is inconsistent to report a receivable for the portion of the overall management fee that would be allocated to the guarantee, whereas reporting no receivable for the portion of the overall management fee that would be allocated to the elements of the contract other than the guarantee.

a. Do you agree that a gaming entity should record a contract acquisition cost asset as the offsetting debit when a manager recognizes a liability at the inception of a guarantee? If not, why?
b. Do you agree that the gaming entity does not owe the manager money at the inception of the contract? If not, why?
c. Do you agree that it would be inconsistent to report a receivable for the portion of the overall management fee allocated to the guarantee, whereas not reporting a receivable for the portion of the contract not related to the guarantee? If not, why?

Please refer to "Initial Recognition and Measurement of a Guarantee" in paragraphs 9.10–9.13 of chapter 9 of the proposed guide.

Income Statement Effect of the Recognition of the Guarantee
Issue 15: The proposed guide considers whether the initial recognition of a guarantee should affect revenue or expenses. Alternative approaches are to either recognize or not recognize the initial guarantee. AcSEC believes the initial recognition of the guarantee has no immediate income statement effect.

a. Do you agree that the initial recognition of a guarantee has no immediate income statement effect? If not, why?

Please refer to "Income Statement Effect of the Recognition of the Guarantee" in paragraph 9.14 of chapter 9 of the proposed guide.

Subsequent Measurement of the Guarantee Liability

Issue 16: The proposed guide considers the subsequent measure of the guarantee liability depending upon the nature. The manager's release from risk is typically recognized over the term of the guarantee by (*a*) either expiration or settlement of the guarantee, (*b*) a systematic and rational amortization method, or (*c*) the fair value of the guarantee changes. The proposed guide further states that, method (*c*) only be used if its use can be justified under GAAP. AcSEC believes that the method described in (*b*) is most commonly used in practice, and that the method described in (*c*) is rarely, if ever, used other than when the guarantee falls under the guidance of FASB Statement No. 133, *Accounting for Derivate Instruments and Hedging Activities* or FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*.

a. Do you agree that the most common method used in practice for the subsequent measurement of a guarantee liability is the method described in (*b*)? If not, why?
b. Do you agree that the method described in (*c*) is rarely, if ever used? If not, why?

Please refer to "Subsequent Measurement of the Guarantee Liability" in paragraph 9.16 of chapter 9 of the proposed guide.

Subsequent Measurement of the Guarantee Asset

Issue 17: The proposed guide considered the amortization of the balance sheet debit as an expense, rather than as contra revenue. AcSEC observed that amortizing the customer acquisition costs as an expense, rather than contra revenue, would result in reporting more revenue over the life of the contract than cash received. In addition, AcSEC believes that although no receivable results from the agreement because payments are contingent, the agreement is, nevertheless, a multiple element arrangement pursuant to EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables." Given the difficulty in categorizing the balance sheet debit, as well as the fact that AcSEC believes it is undesirable to report more revenue over the life of the contract than cash received, AcSEC believes the balance sheet debit should be amortized as a contra to revenue (or as a reduction of other income, if the reduction of the guarantee liability is being recognized as other income) over its estimated useful life. The method of amortization should reflect the economic benefits pattern, and if that pattern cannot be reliably determined, the straight line method should be used. AcSEC believes most entities use the straight line amortization method because that pattern best reflects the economic benefits of the asset as it is used. Although other amortization methods may be utilized, AcSEC believes that the amortization expense should not be recorded more slowly than that amount which would be recognized using the straight line method.

a. Do you agree that the balance sheet debit should be amortized over its useful life? If not, why?

b. Do you agree that the method of amortization of the balance sheet debit reflects the pattern of the economic benefits? If not, why?
c. Do you agree that if that pattern cannot be determined then the straight line method should be used? If not, why?
d. Do you agree that the straight line amortization method best reflects the economic benefits of the assets use? If not, why?
e. Do you agree that the amortization expense should not be recorded more slowly that the amount which would be recognized using the straight line method? If not, why?
f. Do you agree that the balance sheet debit should be amortized as a contra to revenue? If not, why?

Please refer to “Subsequent Measurement of the Guarantee Asset” in paragraphs 9.23–9.27 of chapter 9 of the proposed guide.

Other Accounting Issues
Issue 18: The proposed guide addresses several other miscellaneous accounting topics, such as jackpot insurance, gaming chips and token liability, and race track fees. The accounting treatment for these topics is as follows:

- That gaming entities report the jackpot insurance premiums as a component of net gaming revenue. To the extent that jackpot insurance premiums are prepaid, they are deferred and amortized over the remaining contract period in proportion to the amount of insurance protection provided. Recoveries under jackpot insurance policies are also reported as a component of net gaming revenue.
- That the offsetting entry for the reduction in the chips and tokens liability is recorded as a component of net gaming revenue when adjusting for chip/token float.
- That the treatment of race track fees incurred by a gaming entity is generally netted against the commissions received from the track entity.

a. Do you agree with the accounting treatment of the miscellaneous topics? If not, why?

Please refer to “Jackpot Insurance” in paragraphs 11.11–11.13, “Gaming Chip and Token Liability” in paragraph 11.17, and “Race Track Fees” in paragraph 11.22 of chapter 11 of the proposed guide.

Comments on the exposure draft should be sent by electronic mail to smacey@aicpa.org or addressed to Sharon Macey, Accounting Standards, American Institute of Certified Public Accountants, 1211 Avenue of the Americas, New York, NY 10036-8775, in time to be received by December 9, 2008.

Written comments on the exposure draft will be posted to the AICPA Web site at www.aicpa.org for one year.

Sincerely,

Benjamin S. Neuhausen, CPA *Chair* *Accounting Standards Executive Committee*	Karl Brunner, CPA *Chair* *Gaming Guide Task Force*

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AcSEC, the Gaming Guide Task Force, and the AICPA thank the following former AcSEC members for their contribution to this project: John Althoff, Mark M. Bielstein, Val Bitton, Pascal Desroches, Karen French, Carl Kampel, Peter Knutson, James Kroeker, Steven Lilien, Bob Laux, Andrew Mintzer, Holly Nelson, Coleman Ross, Enrique Tejerina, Robert Uhl, Daniel Weaver, and Brent Woodford.

The Gaming Guide Task Force and the AICPA also gratefully acknowledge Patrick Pruitt and Joel Tanenbaum for their assistance in development of this proposed guide.

AICPA Staff

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Notice to Readers

This AICPA Audit and Accounting Guide has been developed by the AICPA Gaming Guide Task Force to assist management of reporting entities in their preparation of financial statements in conformity with U.S. generally accepted accounting principles (GAAP) and to assist auditors in auditing and reporting on such financial statements.

Accounting Guidance

The financial accounting and reporting guidance contained in this guide has been approved by the affirmative vote of at least two-thirds of the members of the Accounting Standards Executive Committee (AcSEC), which is the senior technical body of the AICPA authorized to speak for the AICPA in the areas of financial accounting and reporting.

Governmental Gaming Entities

AcSEC has found the GAAP for state and local government-related accounting provisions of this guide to be consistent with existing standards and principles covered by Rules 202 and 203 of the *AICPA Code of Professional Conduct.* The GAAP for state and local government-related accounting provisions set forth in chapters 1, 2, 3, and 12 of this guide have been cleared by the Governmental Accounting Standards Board. AICPA members should be prepared to justify departures from the GAAP for state and local government-related accounting guidance in this guide.

Nongovernmental Gaming Entities

The previous edition of this guide as of May 1, 2006, was deemed to be within level *b* of the hierarchy of sources of GAAP that was described in Statement on Auditing Standards (SAS) No. 69, *The Meaning of* Present Fairly in Conformity With Generally Accepted Accounting Principles (AICPA, *Professional Standards*, vol. 1, AU sec. 411). Prior to issuing this exposure draft edition of the guide, the AICPA and FASB agreed that new editions of guides or new guides would be within level *d* of the hierarchy of sources of GAAP. Accordingly, this edition of the guide is within level *d* of the GAAP hierarchy set forth in FASB Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles.*

The previous edition of this guide as of May 1, 2006, may have established accounting principles that are not promulgated elsewhere (referred to as *incremental GAAP)*. The 2006 edition of this guide is not superseded because it remains a source of level *b* GAAP. However, the reader need not refer to the 2006 edition because this edition of the guide conveniently brings forward accounting principles established by the 2006 edition. Appendix G provides an analysis of those accounting principles and their location, or omission in this guide.

This guide does the following:

- Identifies certain requirements set forth in pronouncements in levels *a*, *b*, and *c* of the hierarchy of sources of GAAP. In these instances, entities are required to apply those requirements based on their standing in levels *a*, *b*, or *c* of the hierarchy rather than because of their inclusion in this guide.

- Describes AcSEC's understanding of prevalent or sole industry practice concerning certain issues. In addition, this guide may indicate that AcSEC expresses a preference for the prevalent or sole industry practice, or it may indicate that AcSEC expresses a preference for another practice that is not the prevalent or sole industry practice; alternatively, AcSEC may express no view on the matter.

- Identifies certain other, but not necessarily all, industry practices concerning certain accounting issues without expressing AcSEC's views on them.

- Provides guidance that has been supported by AcSEC on the accounting, reporting, or disclosure treatment of transactions or events that is not set forth in pronouncements in levels *a*, *b*, and *c* of the hierarchy of sources of GAAP.

- Provide specific guidance in chapters 1, 2, 3, and 12 that has been cleared by the Governmental Accounting Standards Board. The guidance in these chapters are within level *b* of the hierarchy of sources of GAAP, set forth in SAS No. 69. Governmental gaming entities are required to apply the guidance in these chapters.

FASB Accounting Standards Codification™

On January 15, 2007, the FASB launched the one-year verification phase of the FASB Accounting Standards Codification™ (Codification). After the verification period, during which constituents are encouraged to provide feedback on whether the Codification content accurately reflects existing U.S. generally accepted accounting principles (GAAP) for nongovernmental entities, the FASB is expected to formally approve the Codification as the single source of authoritative U.S. GAAP, other than guidance issued by the Securities and Exchange Commission (SEC). The Codification includes all accounting standards issued by a standard-setter within levels A through D of the current U.S. GAAP hierarchy, including FASB, AICPA, Emerging Issues Task Force (EITF), and related literature. The Codification does not change GAAP; instead it reorganizes the thousands of U.S. GAAP pronouncements into roughly 90 accounting topics, and displays all topics using a consistent structure. The SEC guidance will follow a similar topical structure in separate SEC sections.

This guide has not been conformed to the new Codification. AICPA Audit and Accounting Guides, as well as all other AICPA Professional Standards, will be conformed to the new Codification after the verification phase and upon approval by the FASB.

Table of Contents

Chapter 1—Industry Overview

Gaming in the United States

Casino Gaming

1.01 The modern era of gaming in the United States began in 1931 in Nevada, when the so-called *wide-open gaming bill* was passed. The passage of the bill was precipitated by (*a*) dissatisfaction with widespread illegal gaming, (*b*) the influence of the mining camp heritage, and (*c*) hopes for general enhancement of business within the state, which was suffering severely during the Depression.

1.02 A turning point in Nevada's gaming history came in late 1946, when the Flamingo Hotel opened outside the Las Vegas city limits. The Flamingo's financial success prompted the development of several new hotel-casinos. Initially, the casinos in Reno and Las Vegas catered mostly to local residents. However, with the introduction of the larger casinos, gaming became big business.

1.03 In 1950, a Senate committee conducted a study of Nevada casinos. As a result of its report, Nevada and the federal government expanded their control efforts. In 1959, the Nevada Gaming Commission was created as the state's authority in licensing and disciplinary matters, and the Gaming Control Board was established as the active operating regulatory authority over the daily activities of Nevada casinos.

1.04 Gaming became a licensed and strictly regulated activity throughout Nevada. In the late 1960s, under pressure from the federal government, Nevada passed the Corporate Gaming Act. This heralded the era of public corporate ownership and created the framework for regulation of the industry.

1.05 In 1976, New Jersey voters passed a referendum allowing casino gaming in Atlantic City. It was hoped that casino gaming would contribute to the redevelopment of Atlantic City. In 1978, the first Atlantic City casino opened, Resorts International, on the Boardwalk. By the early 1990s, thirteen casinos resided on the Boardwalk and in its marina area.

1.06 The proliferation of gaming continued and spread outside of the Nevada and New Jersey markets and into the newly formed riverboat gaming markets. In July 1989, Iowa legalized riverboat gaming and eight other states followed suit.

1.07 Commercial casinos include land based, limited stakes, riverboat, dockside, and racetrack casinos (such facilities are commonly referred to as *racinos*, which are racetracks where *slot machines* or *video lottery terminals* have also been installed). Such forms of gaming are currently conducted in numerous states. Much of the revenue growth in gaming has resulted from the introduction of gaming into new jurisdictions. Land based casinos traditionally include slot machines, table games, race and sports books, bingo, and keno. (See table 1 in paragraph 1.19)

1.08 Each state provides regulations for the gaming format, whether there are limitations on betting limits and hours of operation, admission fees, and the tax rate(s) and how they are collected and spent.

1.09 Gaming is legal in many areas of the world. Some of the casinos in other parts of the world are owned by publicly held companies based in the United States.

Native American Gaming

1.10 Legalized gaming in the United States includes gaming activities sanctioned and conducted by Native American tribes. Native American gaming is regulated in three ways: by the federal government through the National Indian Gaming Commission (NIGC), by states through authority granted by the negotiated tribal state compacts, and by individual tribes through their gaming regulatory authorities established for that purpose. A *compact* is an intergovernmental agreement between a tribal government and a state government. The Indian Gaming Regulatory Act of 1988 (IGRA) requires negotiation of such compacts as the legal basis for Native American gaming.

1.11 IGRA classified gaming into three classifications**:**

- Class I – provides for social or traditional games played in conjunction with tribal ceremonies;
- Class II – provides for bingo and other related games that would normally be played in conjunction with bingo such as *pulltabs* and punchboards; other related gaming activities are also included in this class; and
- Class III – provides for such games as slot machines, house-banked table games, and keno.

Regulations of each class of gaming are determined by tribal-state compacts and the provisions of IGRA.

Lotteries

1.12 A *lottery* is a popular form of gaming that involves the drawing of lots for a prize. Lotteries have been conducted in various forms for centuries and are typically operated by government agencies or charitable organizations. In the United States, lotteries are typically operated by state governments and are subject to the laws of each state. The first modern state lottery was established in New Hampshire in 1964, and currently 42 states and the District of Columbia operate some form of a lottery. Additionally, lottery associations operate interstate lottery games (for example, Powerball, Mega Millions), which results in increased ticket sales and larger payouts than normally found in a single state lottery.

1.13 Whereas a traditional gaming entity operates games solely at the licensed gaming facility, a lottery uses authorized agents at retail outlets to sell lottery tickets and cash winning tickets. The use of off-site agents is a significant difference between a traditional gaming entity's operations and lotteries. The various methods of conducting lotteries are described in appendix E, "Rules of the Games."

1.14 Lotteries are entitled to proceeds from the sale of lotto tickets and instant game tickets and are responsible for payouts on winning tickets. Agents receive a commission based on a percentage of the dollar amount of tickets sold. Agents may also receive other payments, such as a bonus, when a super lotto ticket wins at the agent's retail outlet. The win from video lottery terminals will typically be shared between the agent and the lottery at a rate determined by statute or regulation. A reconciliation is typically performed on a weekly basis, taking into consideration agent ticket sales, payouts, and commissions, with an electronic funds transfer made either to or from the central lottery office, depending on cash flow at the retail outlet for that week. Lotteries also typically generate revenues from license fees collected from the agents.

1.15 Proceeds from ticket sales are distributed pursuant to legislative or regulatory allocation requirements. For example, a typical breakdown would be (*a*) 55 percent returned to patrons as prizes, (*b*) 33 percent to fund education, healthcare, transportation, or other similar state budget items, (*c*) 7 percent commission to agents, and (*d*) 5 percent to fund lottery operating costs.

1.16 As governmental entities, state lotteries apply governmental accounting standards and financial reporting practices and should refer to the guidance in chapter 12.

Other Gaming

1.17 Gaming is also conducted through various charitable organizations, through slot routes at convenience and grocery stores, on cruise ships, and on horse and greyhound races at race tracks and off track betting sites (OTB). Cruise ship gaming is typically conducted only in international waters, where U.S. laws do not apply.

1.18 Gaming has proliferated across the United States in recent years and is now available in some form in every state except Hawaii and Utah. Proliferation is likely to continue as states use taxes and license fees to supplement state budgets.

1.19 The following table illustrates legalized gaming activities throughout the United States.

Table 1 – Nature of Legalized Gaming Throughout the United States as of March 2008

State	Land based[1]	Riverboat	Native American [2]	Card room	Lottery[3]	Bingo	Racino[4]	None
Alabama			X			X		
Alaska			X			X		
Arizona			X		X	X		
Arkansas						X		
California			X	X	X	X		
Colorado*	X		X		X	X		
Connecticut			X		X	X		
Delaware					X	X	X	
Florida			X	X	X	X	X	
Georgia					X	X		
Hawaii								X
Idaho			X		X	X		
Illinois		X			X	X		
Indiana		X			X	X		
Iowa		X	X		X	X	X	
Kansas			X		X	X		
Kentucky					X	X		
Louisiana	X	X	X		X	X	X	
Maine					X	X	X	
Maryland					X	X		
Massachusetts					X	X		
Michigan	X		X		X	X		
Minnesota			X	X	X	X		
Mississippi	X	X	X			X		
Missouri		X	X		X	X		
Montana			X	X	X	X		
Nebraska			X		X	X		
Nevada	X					X		
New Hampshire					X	X		
New Jersey	X				X	X		

[1] Land based gaming in Mississippi passed in 2006 for coastal casinos only. Land based gaming in Colorado is limited stakes.

[2] Class II gaming only currently in Alabama, Alaska, Florida, Nebraska, and Texas.

[3] Includes Powerball, Mega Millions, and state lotteries.

[4] Delaware, New Mexico, and Rhode Island use video lottery terminals.

New Mexico			X		X	X	X	
New York			X		X	X	X	
North Carolina			X		X	X		
North Dakota			X		X	X		
Ohio					X	X		
Oklahoma			X		X	X	X	
Oregon			X		X	X		
Pennsylvania	X				X	X	X	
Rhode Island					X	X	X	
South Carolina					X	X		
South Dakota*	X		X		X	X		
Tennessee					X			
Texas			X		X	X		
Utah								X
Vermont					X	X		
Virginia					X	X		
Washington			X	X	X	X		
Washington DC					X	X		
West Virginia					X	X	X	
Wisconsin			X		X	X		
Wyoming			X			X		
Number of states	**8**	**6**	**28**	**5**	**43**	**47**	**11**	**2**

Limited stakes gaming represents gaming operations where only slot machines and table games with relatively low maximum bet limits are permitted.

1.20 Card rooms allow only nonbanked table games, and in the state of Washington, restrict the number of tables and betting limits.

1.21 Internet gaming companies have been formed to provide online gaming and sports betting over the Internet. The legality of such forms of gaming continues to be debated and challenged throughout the world and is still illegal in the United States. U.S. gaming corporations generally have avoided entering into Internet gaming opportunities because such activities may jeopardize their gaming licenses in U.S. jurisdictions.

1.22 Many gaming facilities have become large scale, destination resorts. Owners have invested significant amounts of capital in the physical plants of these facilities and derive a large portion of their revenues from ancillary sources including hotel, food and beverage, convention facilities, entertainment, and retail operations.

1.23 Gaming equipment manufacturers have also developed structures whereby they conduct gaming activities. The gaming equipment manufacturer may maintain ownership of the machine and also may share in the proceeds from the gaming activities.[1]

Regulation and Oversight

1.24 The ownership and operation of gaming facilities in the United States are subject to a number of state, local, and tribal laws, regulations, and ordinances. These laws and regulations concern the responsibility, financial stability, and character of gaming operators and persons financially interested or involved in gaming operations.

1.25 Gaming entities are licensed by state, local, and tribal gaming regulatory authorities. The licenses are not transferable and may be renewed periodically. The licensing authorities have broad discretion in granting and renewing licenses.

1.26 Officers, directors, and certain key employees of a gaming entity must be licensed by the gaming regulatory authorities, and employees associated with gaming must obtain licenses, work permits, or employee registrations. The gaming authorities have the power to require the gaming entity to (*a*) suspend or dismiss officers, directors, or other key employees or (*b*) sever relationships with other persons who refuse to file appropriate applications or whom the authorities find unsuitable to act in such capacities. Certain jurisdictions require all employees of the entities that service the gaming industry to also be licensed.

1.27 If it is determined that gaming laws have been violated, a gaming entity's gaming license can be limited, conditioned, suspended, or revoked, and the gaming entity and persons involved may be subject to fines at the discretion of the applicable regulatory authorities.

1.28 No person may acquire control of a gaming entity (whether by ownership of securities, agreement, or otherwise) without the prior approval of the gaming authorities. The authorities may require controlling stockholders, officers, directors, and other persons having a substantial relationship or involvement with the gaming entity to be found suitable for that relationship or involvement or to be licensed. The gaming authorities have the power to investigate any principal security holder.

1.29 To be licensed, the gaming entity may give up certain management flexibility and may also be subject to requirements that do not apply to business entities in general. For example, some jurisdictions legislate detailed provisions concerning (*a*) employment practices of casino operators, contractors for gaming entities, and others; (*b*) security

[1] It should be noted that the scope of this guide covers these gaming activities, but does not otherwise apply to the accounting and auditing of other activities of gaming manufacturers, such as inventory or nongaming related revenue recognition.

standards, management control activities, accounting and cash control methods, and reports to gaming authorities; (*c*) advertising, standards for entertainment, and distribution of alcoholic beverages; and (*d*) purchases of gaming equipment.

1.30 For the operating methods that the gaming entities will use, some jurisdictions prescribe (*a*) the rules of the games, including minimum and maximum wagers and the manner of selling and redeeming chips and (*b*) the manner of granting credit, the duration of credit, and the enforceability of gaming debts.

1.31 Gaming entities are generally required to file with regulatory agencies reports describing, in narrative and diagrammatic form, detailed operating procedures for gaming and gaming related activities that meet certain specified minimum standards**.** An accounting system and internal control policies and procedures must be established before a gaming entity's operations begin. The systems and any significant revisions to them may be evaluated and reported on by an independent auditor and are subject to review by the regulatory agencies.

1.32 Gaming entities are generally charged a fee or tax based on a percent of gross gaming revenue by the state in which they operate. Such fees are often also assessed by tribal governments on gaming entities operating within their jurisdiction. County and city license fees are also common. Local jurisdictions sometimes require a gaming entity to pay a deposit to ensure that the locality receives the tax revenue even if the gaming entity ceases to operate**.**

1.33 In addition to the gross revenue fee or tax imposed by states, tribes, and local governments, the federal government imposes taxes and fees on certain gaming activities. For example, a wagering tax is levied by the federal government on race and sports book operators. This tax is based on a percentage of the amount wagered by customers.

1.34 In addition to the aforementioned fees and taxes, the operating costs of gaming, regulatory, and investigatory agencies may be passed on to gaming entities in the form of fees.

1.35 Publicly held gaming entities are generally subject to requirements of federal securities laws, including the Securities Act of 1933 (the 1933 Act) and the Securities Exchange Act of 1934 (the Exchange Act). Entities whose securities are registered under the Exchange Act must comply with its reporting requirements through periodic filings with the SEC.

1.36 Provisions of many other federal and state laws affect the operation of gaming operators, such as the following:

- In 1984, the New Jersey Casino Reinvestment Development Authority (CRDA) was created. The purpose of CRDA is to maintain public confidence in the gaming industry by directly facilitating the redevelopment of Atlantic

County as well as assessing and addressing the pressing social and economic needs of its residents. (See appendix C of this guide for additional details)

- Under the federal Indian Gaming Regulatory Act (IGRA), net revenues from Class II or Class III gaming, as defined by IGRA, may be used to make per capita payments to members of the tribe only when certain conditions are met.
- To deter and prevent criminal activity, especially *money laundering,* regulations promulgated under the authority of the Bank Secrecy Act of 1970 (BSA) and the USA Patriot Act of 2001 were enacted. For additional guidance concerning this and other acts, refer to appendix D. Gaming entities are considered financial institutions and must comply with BSA requirements.
- Gaming entities are subject to various laws, regulations, and other requirements related to the privacy of customer information. Many states have passed laws requiring notice to state residents if their personal information has been compromised. In addition, gaming entities processing credit card transactions may be subject to additional protection requirements regarding the personal information of a credit card issuer's customer.

Brief Descriptions of the Games

1.37 The jurisdiction in which the gaming entity is located determines the types of games of chance that the gaming entity may operate. The following are brief descriptions of the games most likely to be found in a gaming entity. More detailed descriptions of some of these games are included in appendix E, "Rules of the Games."

Table Games

1.38 As would be expected, table games are simply those that are played at a table and involve one or more players usually wagering against the gaming entity's *bankroll*. The table may include a *layout*—a diagram, usually on felt, with spaces for the bets to be placed. The house is represented by *dealers*, which is a general term that may include *stickpersons and boxpersons***.** The most common table games are as follows:

- *Craps*
- *Blackjack, or Twenty-One*
- *Roulette*
- *Wheel of Fortune, or Big Six*
- *Baccarat*

Card Games

1.39 *Card games,* such as *poker* and *panguingui (pan),* differ from table games in that the customers wager against each other rather than against the gaming entity's bankroll. The revenue derived by the casino is merely a percentage *rake-off* or a *time buy-in*—a commission charged by the house for the privilege of playing in the establishment.

Slots Machines

1.40 *Slot machines* are devices in which the player generally deposits one or more coins for a chance to win a jackpot or other *payoff*. Payoffs may be based on the alignment of like symbols appearing on three or more narrow cylindrical drums, called *reels*, but there are many variations. These devices may also be machines that simulate other games, such as poker or blackjack, on a video screen. In addition, gaming equipment manufacturers have offered *wide area progressive* systems to gaming entities. These systems provide the gaming entity with the ability to provide significantly larger jackpot offerings and, at the same time, reduce the gaming entity's risk for funding the jackpot**.** Typically, the progressive amount increases as a function of each coin played in any machine linked to the system among the participating gaming facilities. The industry is rapidly changing to coinless slot machines. Customers use currency and play the machine against credits representing the amount of the currency placed in the machine. This credit, which is displayed prominently on the face of the machine, goes up or down as the customer wins and loses their wagers. At the completion of playing, the customer redeems their credits for a wagering voucher, commonly referred to as a *ticket*. This ticket can be reintroduced to any machine at that gaming entity equipped with this technology or redeemed with a cashier or at a redemption kiosk. This cashless wagering process is commonly referred to as *ticket in, ticket out* or TITO.

1.41 Conventional slot machines operate independently from other slot machines and contain control programs that determine the outcome of each wager. Technological advances are allowing slot machines to interface with server based gaming systems whereby game outcomes are determined by the system (*system based games*) or control programs within the slot machines which can be changed from the system (*system supported games*).

Keno

1.42 A keno ticket bears a selection of numbers from 1–80. These numbers correspond to 80 numbered Ping-Pong-like balls contained in a special holding unit. Generally, 20 balls are then drawn randomly, and winning wagers are determined by how many numbers on the customer's ticket match those drawn.

Bingo

1.43 A *bingo* ticket has five rows of five numbers each, a total of 25 numbers. As numbers are selected at random by the gaming entity, the players cover any corresponding numbers on their cards. The first customer to cover a specified row, column, or design is the winner.

Race and Sports Betting

1.44 Race and sports books are operations in which the player places a bet on the outcome of an animal race or sporting event.

Chapter 2—Guide Scope and Applicability

2.01 Most of the accounting and financial reporting practices of entities undertaking gaming or gaming related activities (collectively referred to as *gaming entities*) are essentially the same as those of other industries. This Audit and Accounting Guide (guide) addresses accounting, auditing, and financial reporting issues unique to gaming entities. This guide applies to entities traditionally considered gaming entities, such as casinos, and to other entities to the extent that such entities undertake gaming or gaming related activities.

2.02 Financial statements of gaming entities should be prepared in conformity with generally accepted accounting principles (GAAP). AU section 411, The Meaning of *Present Fairly in Conformity With Generally Accepted Accounting Principles* (AICPA, *Professional Standards,* vol. 1), provides the GAAP hierarchy summary for both nongovernmental and governmental entities[1, 2.]

[1] In May 2008, the Financial Accounting Standards Board (FASB) issued Statement No. 162, *The Hierarchy of Generally Accepted Accounting Principles,* which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). The FASB concluded that the GAAP hierarchy should reside in the accounting literature established by the FASB rather than in the auditing literature established by the AICPA (for non-Securities and Exchange Commission [SEC] registrants) or the Public Company Accounting Oversight Board (PCAOB) (for SEC registrants).
FASB Statement No. 162 carries forward the GAAP hierarchy as set forth in the AICPA's Statement on Auditing Standards (SAS) No. 69, The Meaning of *Present Fairly in Conformity With Generally Accepted Accounting Principles* (AICPA, *Professional Standards*, vol. 1, AU sec. 411), subject to certain modifications that the FASB does not expect to result in changes to current practice. The modifications include, among other changes, the expansion of category (*a*) accounting principles to include, with one exception, all sources of accounting principles that are issued after being subject to the FASB's due process (including, but not limited to, FASB Staff Positions and FASB Statement No. 133, *Implementation Issues*, which are currently not addressed in SAS No. 69). Although certain consensus positions of the FASB Emerging Issues Task Force (EITF) have been issued after being subjected to the FASB's due process, the FASB decided to carry forward the categorization of EITF consensuses as presented in SAS No. 69, which is category (*c*).
FASB Statement No. 162 does not carry forward the exception permitted in ET section 203, *Accounting Principles*, of the AICPA's Code of Professional Conduct (AICPA, *Professional Standards*, vol. 2), that allows departures from the GAAP hierarchy if the member can demonstrate that, due to unusual circumstances, the financial statements would otherwise have been misleading. Therefore, an entity cannot represent that its financial statements are presented in accordance with GAAP if its selection of accounting principles departs from the GAAP hierarchy set forth in FASB Statement No. 162, and that departure has a material effect on its financial statements.
FASB Statement No. 162 is effective 60 days following the approval by the SEC of the conforming amendments included in PCAOB Auditing Standard No. 6 and conforming amendments adopted by the PCAOB on January 29, 2008. Among other significant provisions, the conforming amendments remove the GAAP hierarchy from the PCAOB's interim auditing standards.
In response to the FASB's release of the exposure draft of Statement No. 162 in April 2005, the AICPA issued an exposure draft of a proposed SAS, *Amendment to Statement on Auditing Standards No. 69,* The Meaning of *Present Fairly in Conformity With Generally Accepted Accounting Principles, for Nongovernmental Entities*, in May 2005, which deletes the GAAP hierarchy for nongovernmental entities from SAS No. 69. The effective dates of the AICPA, FASB, and PCAOB standards will coincide.
For more information, please visit the FASB Web site at www.fasb.org.

[2] Readers may consider referring to the auditor's report section of this guide for a discussion regarding issuers' reporting requirements.

2.03 Gaming in the United States is conducted by commercially owned entities and by state, local, and tribal governments and their enterprises. The AICPA Audit and Accounting Guide *State and Local Governments* specifies criteria for classifying entities as governmental[3]. Under those criteria, gaming entities operated by state, local, and tribal[4] governments are governmental because as is typically the case, the sponsoring government has the ability to dissolve the gaming entity with the net assets reverting to the sponsoring government.

2.04 Gaming entities subject to the governmental GAAP hierarchy are referred to as *governmental* throughout this guide. Such entities should refer to chapter 12 of this guide for additional guidance specific to governmental entities.

[3] See criteria in paragraph 1.01 of the AICPA Audit and Accounting Guide *State and Local Governments.*

[4] Federally recognized tribes (including federally recognized Alaskan native villages and corporations) meet this criteria and are governmental because each has the power to enact and enforce a tax levy, which is one of the criteria for being considered governmental. Also, federally recognized tribes can issue debt bearing interest that is exempt from federal taxation when the debt proceeds are used for essential governmental functions.

Chapter 3—Overview of Gaming and Gaming Related Revenue

Introduction

3.01 Gaming includes activities in which a gaming entity participates in games of chance with customers, with both the gaming entity and the customer having the chance to win or lose money or other items of economic value based on the outcome of the game (commonly referred to as *banked games*). Such activities are referred to as *gaming activities*. Examples of games that typically are played as banked games include, but are not limited to, table games, slot machines, keno, bingo, and sports and non-pari-mutuel race betting.

3.02 Games in which the customer has the chance to win or lose money or other items of economic value, with the gaming entity receiving a fee (typically either a fixed fee or a percentage of play) for administering the game, rather than the gaming entity being at risk to win or lose based on the outcome of the game, are neither banked games nor gaming activities. Such activities are referred to as *gaming related activities*. Examples of games that typically are played as gaming related activities include, but are not limited to, card games, certain tournaments, lotteries, and pari-mutuel race betting. Certain games may be either gaming activities or gaming related activities, depending on the facts and circumstances. For example, gaming activities games include play as part of tournaments in which customers play with real money or equivalents, and the entity is at risk to win or lose based on the outcome of the game. Accordingly, for a slot tournament in which customers play with real money and retain any payouts from machines during the tournament, the slot play is a gaming activity, while the other tournament activities, such as entry fees and prize payouts based on overall standing among tournament entrants, are gaming related activities. Conversely, for a slot tournament in which customers play with credits or other designated machine input other than cash and cash equivalents and accumulate points that determine their standing in the tournament, but retain no cash or other items of economic value as payouts from the machine, the slot play is not a banked game and, therefore, not a gaming activity.

3.03 For some gaming related activities, the entity may have the chance to win or lose money or other items of economic value based on factors other than the outcome of the game, such as business risk (see paragraph 3.12 for an example of this business risk).

3.04 For some activities, the entity has neither business risk nor gaming risk and has no opportunity to make a profit directly from tournament play. A casino may hold a tournament with no banked games, no entry fee, and prizes that are not directly funded by tournament members. For example, the winner of a tournament with no entry fee and no banked games may receive a cash prize or an automobile. Such activities are neither gaming activities nor gaming related activities.

3.05 Casino revenue is reported on the accrual basis. Revenue recognized and reported by a casino is generally defined as the win from gaming activities, that is, the difference between gaming wins and losses, not the total amount wagered.

3.06 State lotteries use the net presentation described in paragraph 3.05 for video terminal lottery revenue, but typically report lotto and instant game ticket sales as revenue, with prize payouts reported separately as expenses or as deductions from revenue. Reporting state ticket sales and prize payouts separately reflects a government's responsibility to be accountable to its citizens. The remaining revenue discussion in this chapter does not apply to lotteries. For additional lottery discussion, refer to chapter 12, "*Governmental Gaming Entities*."

3.07 *Gross gaming revenue*[1] is the difference between gaming wins and losses from banked games before deducting incentives or adjusting for changes in progressive jackpot liability accruals. For table games, gross gaming revenue is computed in accordance with the formula in paragraph 3.19. For slot machines, gross gaming revenue is computed in accordance with the formula in paragraph 3.28.

3.08 Gross gaming revenue is typically computed by shift (table games and slots), area (table games), machine (slots), or other aggregate unit. Gross gaming revenue is not computed by each hand, turn, or other individual unit.

3.09 Net gaming revenue equals gross gaming revenue (*a*) minus incentives that are charged to gaming revenue pursuant to paragraphs 3.33–3.40 of this guide, (*b*) plus or minus the change in progressive jackpot liabilities, and (*c*) plus revenue from gaming related activities.

3.10 Gaming entities generally report all payouts and prizes related to banked games as a component of net gaming revenue. Accordingly, prizes or payouts resulting from banked games, even if not built into a payout table, should not be reported as marketing or promotional expense. For example, customers hitting a particular slot machine combination within a specified time period may win an automobile in addition to the stated jackpot for the particular combination. The cost of that automobile should be reported as a component of net gaming revenue.

3.11 In some circumstances, as discussed in paragraph 3.02, as part of certain gaming related activities, such as tournaments in which the gaming entity is at no risk to win or lose, the gaming entity pays out prizes directly funded by tournament members. For example, tournament members may each pay $1,000 as an entry fee, with $950 included in the tournament prize pool and $50 as a fee to a casino. In such transactions, the prize pool should be reported as a component of net gaming revenue and the fee to the casino

[1] Gross gaming revenue is generally not reported by gaming entities in their external financial statements; rather, net gaming revenue is generally reported. Gaming entities generally report gross gaming revenue for internal reporting purposes.

included in net gaming revenue.

3.12 In some circumstances, as discussed in paragraph 3.03, as part of certain gaming related activities, the gaming entity has no gaming risk but has business risk. For example, a slot tournament may include no banked games and have a grand prize of $100,000, regardless of the fees collected from the number of entrants. In this example, the entity may have the chance to win or lose money, and the gaming entity's net profit or loss from such activities should be reported as a component of net gaming revenue.

3.13 In some circumstances, as discussed in paragraph 3.04, as part of certain activities, the gaming entity has no opportunity or intention of making a profit directly from tournament play. For example, a casino may sponsor a tournament with no banked games, no entry fee, and prizes that are not directly funded by tournament members. For example, the winner of a tournament with no entry fee and no banked games may receive a $100,000 cash prize (or an automobile). Such activities are neither gaming activities nor gaming related activities. Prizes from these types of activities are typically reported as marketing or promotional expense, rather than as a component of net gaming revenue.

Overview of Transactions in the Casino and the Casino Cage

Overview of Table Game Transactions

3.14 A simple illustration of a transaction cycle in a casino operation starts with the *casino cage* containing a specified amount of cash and a specified amount of *chips* (the starting bankroll). For a gaming table to have chips with which to operate, the chips are transferred from the casino cage, and a *fill slip* is prepared to record the transfer of the chips from the casino cage to the gaming table. A copy of the fill slip is deposited in the locked *drop box* attached to the gaming table. A player at a gaming table will generally be playing with chips acquired either in exchange for cash or on credit. If the player is playing with cash, the cash is immediately placed in the drop box.

3.15 If the customer is playing on credit, they will sign a multipart marker in exchange for which the customer receives chips. A portion of this marker is ordinarily deposited in the drop box. The remaining portion of the marker is ultimately transferred to the casino cage, where a *credit slip* is issued to the table issuing the marker, thus placing the marker in the custody of the casino cage and establishing *accountability* in the cage. Upon completion of play, the customer may take whatever chips they have remaining to the casino cage and use them to repay the credit and exchange any remaining chips for cash. (In certain jurisdictions, the procedures may be different; for example, markers may be repaid at the table.) If the gaming table has excess chips, a *credit slip* is prepared to record the transfer of the chips from the gaming table to the casino cage. A copy of the credit slip is deposited in the locked *drop box* attached to the gaming table.

3.16 Each gaming table maintains a *table inventory* of chips (which may be recorded on *openers* and *closers*) and, thus, the increase or decrease in the table inventory during a shift also enters into the determination of table gross gaming revenue. At the change of a shift or the closing of a table, the chips at the table are counted and entered into the *master game report* or *stiff sheet*. When the contents of the drop box are counted, the amount of *gross gaming revenue* is determined by totaling the amount of cash, markers issued, the credit received for chips returned to the cage and the table inventory at the end of the shift, and by deducting the *fills* received from the cage and the table inventory at the beginning of the shift. This calculated amount is referred to as the *table gross gaming revenue*.

3.17 The following list summarizes the types of transactions at gaming tables that affect the inventory of chips:

- A transfer from the casino cage to a gaming table (documented by a fill slip)
- A transfer to the casino cage from a gaming table (documented by a credit slip)
- A transfer (sale) of chips to a customer from the table inventory in exchange for either currency or a marker
- Wagering transactions which result in either an increase or decrease in the table inventory, depending on whether the casino wins or loses the bets placed

3.18 All transactions listed in the preceding paragraph, except wagering transactions, are either recorded on a document (fill slip, credit slip, or marker) or are exchanges (currency for chips).

3.19 Gross gaming revenue is typically determined for each table in each shift as shown in the following illustration:

Cash in the drop box		$6,000
Markers issued and outstanding		3,000
Total drop		9,000
Plus/minus chip transfers:		
Fills	($5,000)	
Credits	1,000	
Net chip transfers		(4,000)
Plus/minus table inventory change		
Beginning table inventory	($14,000)	
Ending table inventory	11,000	

Net change in table inventory	(3,000)
Gross gaming revenue (Win)	$2,000

3.20 The computation of the gross gaming revenue amounts by table, for each shift, is made on the master game report. These results are summarized by game into shift totals and daily totals.

Overview of the Slot Machine Cycle

3.21 An operating cycle for the *slot machine* starts with the *hopper* of a machine being loaded with a predetermined amount of coins of the required denomination (hopper *load*), which may be segregated in the *casino cage accountability*. The initial or subsequent hopper loads, or *slot fills*, are obtained from a *slot booth* or *fill cabinet*, the casino cage, or the vault, depending on the individual operation. A fill slip or other numerically controlled form of documentation is prepared to record the transfer of coins to the hopper.

3.22 As the slot machine is played, the hopper fills up with coins inserted by the customers, and the coins overflow into the *drop bucket*. Machine payoffs to the customers will decrease the hopper, and the hopper will occasionally require a slot fill.

3.23 When a customer hits a jackpot other than those paid automatically by the machine, the jackpot is paid by the *change person* from his change bank, the slot *booth cashier*, or the casino cage, concurrent with the completion of a numerically controlled *jackpot payout slip*. The payout of jackpots over a specified amount, as determined by the casino management, requires supervisor approval.

3.24 The drop buckets, which are secured in cabinets beneath the machines, are periodically removed, and the coins are collected. Each machine's coins are counted or weighed to determine the slot *drop,* which is then recorded. This procedure is called the *hard count.* Many slot machines are also now equipped with currency or bill acceptors. The bill acceptors are typically removed at or near the same time as the drop buckets and are counted by machine in a slot *soft count*.

3.25 In certain jurisdictions, slot machines no longer accept or pay out in coins. They are equipped with *currency acceptors*, which also accept previously issued wagering vouchers (tickets) and with ticket printers that generate tickets for customers' winnings rather than the payout being made in cash or coins. Tickets generated by machines can either be used at other machines or redeemed at the cage or redemption kiosks.

3.26 Customers can also deposit monies into a wagering account and conduct *electronic money transfer*s to the slot machine from their accounts. Conversely, wagering credits can also be sent back to the wagering account via an electronic money transfer**.**

3.27 Normally, the *meters* on the machines are read in conjunction with the collection of the drop buckets and currency acceptors. Meters may be read visually or electronically, depending on the system in operation. Machines have one or more meters, such as coin-in, handle pulls, drop, coin-out, bill-in, voucher-in, voucher-out, jackpot, and progressive jackpot. From the meter information, actual *hold percentages* can be computed and compared to the expected or *theoretical hold* percentages for each machine. Additionally, recorded drop-meter readings can be compared to the actual drop.

3.28 Gross gaming revenue is normally computed by machine, by denomination, and in total. Slot machine gross gaming revenue is typically computed as follows:

Cash and tickets removed from the currency acceptors	$2,000	
Plus:		
Coins removed from drop buckets	2,000	
Electronic money transfers from a wagering account to the machine	1,000	
Total drop		$5,000
Less:		
Tickets issued by the machine	(1,000)	
Fills	(1,000)	
Hand paid jackpots	(1,000)	
Electronic money transfers from the machine to a wagering account	(1,000)	
Plus or (minus) change in the hopper balance	(200)	
Total deductions before gross gaming revenue		(4,200)
Gross gaming revenue (Win) *		$ 800

***** Change in hopper loads are typically not aggregated daily, but are considered and adjusted at the applicable reporting date.

3.29 Details of various types of jackpots and the related accounting can be found in chapter 4, "Jackpot Liabilities."

Overview of the Cage and General Ledger Control

3.30 At the end of each shift, the casino cage prepares a reconciliation, accounting for all the cash and cash equivalents in its possession. These may be summarized on a daily basis. This report includes the casino's inventory of currency, coins, markers, and gaming chips and is reconciled to either an imprest balance maintained by the cage or, as is more often the case, the accountability at the end of the preceding period.

3.31 The change in the cage accountability is, in part, a function of the gaming transactions. For example, the cash inventory is affected by (*a*) the cash collected from table drop boxes and slot machine drop buckets and transferred to the cage, (*b*) payments received for markers, (*c*) funds transferred to or from bank accounts and (*d*) payments to customers as they exchange chips or tokens for cash. Funds in excess of the anticipated currency and coin requirements for the next day's activity or in excess of the imprest balance maintained by the cage are deposited in bank accounts. The total of the markers under the cage's control fluctuates due to markers received from gaming tables and payments received at the cage. The amount of chips or tokens in the casino's possession changes due to the chips or tokens in the customers' possession (*chip float*).

3.32 In addition to cage accountability over cash and cash equivalents in its possession, general ledger control is also maintained. The general ledger control accounts at the period's end should agree with the cage's daily summaries.

Overview of Incentive Programs in the Gaming Industry [2]

3.33 The gaming industry provides various incentives to induce customers to play, many of which allow gambling to take place without customers being required to use their own funds. For some incentive programs, there is an obligation to provide benefits based on a customer's level of play (*nondiscretionary programs*). For other programs, there is discretion in determining the benefits provided, if any (*discretionary programs*). For discretionary programs, no predetermined benefits are established or communicated to the customer (or potential customer). Discretionary programs typically are targeted to either past, current, or potential customers and may or may not be related to the level of play. Characteristics of specific programs that are described in the following text, and the terminology used to describe them may vary. From a financial reporting perspective, the key characteristics are

- whether the incentive is discretionary or nondiscretionary, and
- the nature of the benefit (that is, *free play*, cash, or complimentaries)

[2] For a detailed discussion regarding the accounting for these types of incentive programs, refer to chapter 6 of this guide.

3.34 Various types of loyalty programs include the following:

- **Slot clubs.** These programs operate similarly to hotel or credit card point loyalty programs. The customer has a card that identifies the customer when they play on slot machines. Customers earn and accumulate points on the card at a specified rate based on the amount played. For example, every $1 played earns 10 points. Typically, each point has a value denominated in cash—for example, a point may be worth ¼ of $0.01—and can be exchanged for either (*a*) cash only, (*b*) complimentaries, (*c*) free play, or (*d*) a combination of all of the above. Points generally can be redeemed at the customer's request, subject to availability, with few "blackout" days.
- **Players clubs.** These programs are similar to slot club loyalty programs, except that customers earn and accumulate points for playing on table games or other games in addition to playing on slots.
- **Club status (also referred to as *player tracking*).** In these programs, customers earn a club status, such as a Gold, Silver, or Platinum Member rather than points. Typically, members may be eligible, subject to availability or current policy, for future complimentaries or promotions, or benefits such as preferred check-in.

3.35 Slot management and marketing systems exist whereby customers or potential customers are provided free wagering credits to be used for slot machine play. In addition, credits may be delivered in several other forms. Coupons may be sent to the potential customer, who can redeem them by either having the credits downloaded to the player's club card or by inserting the coupon into the machine directly. The gaming entity may deliver a separate, one-use card to the potential customer. Alternatively, credits can be downloaded directly onto a player's club card while playing, as a bonus incentive, which would be considered a loyalty program. In any case, the credits cannot be converted directly to cash, though customers can play with the credits and can redeem any resulting wins for cash net of the gaming entity's win**.**

3.36 The most typical incentive arrangement is the distribution of match play coupons, typically redeemable for one bet. The coupons may be distributed in a variety of ways, including but not limited to mail, a booth in the gaming entity, a newspaper coupon book, and included in packets given to bus customers or guests checking into hotels. For coupons that are mailed, the gaming entity typically selects the recipients based on their play and estimated value to them. Efforts may also be aimed at broader segments of the population, such as vacationers coming to town. Occasionally, the gaming entity sells 2-for-1 coupons or chips. The coupons typically expire after a specified period (typically, approximately 45 days from distribution).

3.37 An example of a typical match play arrangement is as follows: a customer may bet $5 cash on a blackjack bet and use the coupon to match the bet, thereby getting credit for a $10 bet. These customers may or may not be members of other customer loyalty programs. (These coupons are similar to the cash coupons discussed in paragraph 3.38, except that for coupons considered "match play coupons" for purposes of this guide, customers must play with all benefits they accept, rather than retain cash without playing.)

3.38 Gaming entities have used cash coupons or other cash incentives (commonly referred to as *straight cash incentives*) for many years. In the two most typical arrangements, they either (*a*) give cash directly to a potential customer, or (*b*) send a coupon to a potential customer, who can redeem the coupon for cash at the gaming entity. The coupons usually expire after a specified period (typically, approximately 45 days from mailing.) In either case, no guarantee exists that the potential customer will play the cash. In other words, the potential customer may receive the cash and choose not to play with it. (These coupons are similar to the match play coupons discussed in paragraph 3.37, except that customers may choose not to play with cash they accept through cash coupons.) Usually, the gaming entity is able to determine which potential customers play with the cash and which do not. Typically, an immaterial percentage of potential customers choose not to play with the cash.

3.39 Premium customers often receive free, noncashable promotional chips, often in a high denomination (say $10,000), which can be used for table games wagers. This program is a form of free play and is similar to the free play program previously discussed. Promotional chips are typically awarded based on credit lines, which are a proxy for amounts expected to be played.

3.40 Certain premium customers receive offers whereby, if they lose, they will receive a discount on their credit balance. (For example, some casinos extend credit to customers in exchange for playing chips. The discount on credit balances is based on the outstanding balance at the end of the customer's visit.) These discounts are typically prearranged in exchange for the customer agreeing to play for a certain volume of activity. Such discounts on credit balances are akin to credits that an entity can apply against trade amounts owed to a vendor.

3.41 Promotional allowances (complimentaries or comps) represent goods and services, which would be accounted for as revenue, if sold, that a casino gives to customers as an inducement to gamble at that establishment. Examples are rooms, food, beverages, entertainment, and parking.

3.42 The retail amount of promotional allowances is often disclosed in the financial statements. This disclosure, if made, is preferably made in the financial statement notes. However, the retail amount of promotional allowances may be included in gross revenues and offset by deducting it from gross revenues on the face of the income statement. The retail amount of promotional allowances should not be included in gross revenues and charged to operating expenses because that would overstate both revenues and expenses.

Chapter 4—Jackpot Liabilities

Applicability: *This chapter provides guidance applicable to nongovernmental gaming entities. Governmental gaming entities should refer to chapter 12 of this guide and consider the implications of Governmental Accounting Standards Board pronouncements that conflict with or contradict guidance provided in this chapter.*

Background

4.01 Slot machines are games of chance in which both the gaming entity and the customer have the chance to win or lose based on the outcome of the game. In addition, slot machine *jackpots* are controlled by the gaming entity over the long-term and are typically programmed to provide a specified *hold percentage* to the gaming entity. Within that framework, and based on the normal *reel cycle* of the slot machine, jackpots are expected to be won by the customer. An issue arises as to whether such jackpots should be accrued for in advance of the jackpot occurring.

Summary of Selected Accounting Literature

4.02 The primary accounting literature relating to jackpot liabilities is Financial Accounting Standards Board (FASB) Concepts Statement No. 6, *Elements of Financial Statements* and FASB Statement No. 5, *Accounting for Contingencies*.

4.03 *Base jackpots* are charged to revenue ratably over the period of play expected to precede payout; however, if immaterial, they are charged to revenue when established. Any portion of the base jackpot not charged to revenue when the jackpot is paid is charged to revenue at that time.

Types of Jackpots for Purposes of Accounting for Jackpot Liabilities

4.04 Jackpots can generally be categorized among four basic types: single machine *progressive jackpots*, *nonprogressive jackpots*, *local area progressive jackpots*, and *wide area progressive* (WAP) *jackpots*. Appendix E contains additional information about the operational aspects of these jackpots.

4.05 In most gaming jurisdictions, gaming entities are not required (in advance until the jackpot is won) to award any nonprogressive jackpot, whether the jackpot is won during the normal reel cycle or not. Rather, gaming regulators require slot machines to operate within their preapproved *payout percentage* tolerances programmed into the machine.

4.06 For single machine progressive jackpots and local area progressive jackpots, in most gaming jurisdictions, gaming entities are required (by law or regulation) to award the *incremental progressive amount* whether the jackpot is won during the normal reel cycle or not. This requirement is based on the principle that the incremental amount was funded by the customers and, therefore, must be returned to them. If the gaming entity desires to remove the *progressive slot machine* or the *progressive system* from the floor before the progressive jackpot has been won, gaming regulations typically allow the gaming entity to award the incremental progressive amount in another form, such as a one-time prize drawing. The *base progressive amount* is funded by the gaming entity. While not common, some gaming jurisdictions also require the gaming entity to award the base progressive amount, whether the jackpot is won during the normal reel cycle or not. As stated previously, most gaming jurisdictions require only the incremental amount to be awarded.

4.07 *Wide area progressive systems* can be operated by a gaming entity at several of its own locations or can be operated by a third party, such as a gaming manufacturer, at multiple gaming entities' locations. In those cases, the WAP operator typically charges gaming entities a fee for providing the progressive system and awarding the progressive jackpots. From the customer's perspective, wide area progressive slot machines operate identically to local area progressive slot machines, with the base progressive amount and incremental progressive amount. For accounting and financial reporting purposes, a gaming entity with multiple locations that offers a linked progressive system at many of its other locations would follow the accounting described in the following text for local area progressive jackpots, not WAP jackpots.

4.08 In most gaming jurisdictions, WAP operators are required to award the incremental progressive amount of the WAP jackpot, whether the jackpot is won or not. Generally, gaming entities may remove slot machines from the WAP system. However, if the WAP operator desires to remove all the WAP progressive machines from all locations (a system shutdown) before the progressive jackpot has been won; gaming regulations typically require the WAP operator to transfer the incremental progressive amount to another WAP system. Jurisdictions differ on the treatment of the base progressive amount. Usually, the initial base progressive amount is funded by the WAP operator. Subsequent base amounts may be funded by the WAP operator or from fees received from the gaming entities. Some jurisdictions allow the WAP operator to recover their contribution to the base amount. Upon system shutdown, some gaming jurisdictions require the WAP operator to transfer the base progressive amount to another WAP system whereas other jurisdictions do not.

Accounting for Jackpots

4.09 The Accounting Standards Executive Committee (AcSEC) believes that no accrual should be made for nonprogressive jackpots until the jackpot is won in accordance with FASB Concept Statement No. 6 and FASB Statement No. 5 in that no past event has occurred to create a liability. A similar criterion applies to governmental gaming entities under GASB concept statements.

4.10 For single machine progressive jackpots and local area progressive jackpots[1], AcSEC generally believes an accrual for the *base progressive jackpot* is only required at the point a jackpot is won by a customer, consistent with the conclusions related to nonprogressive jackpots in the preceding paragraph 4.09. In the rare case where a gaming jurisdiction requires the gaming entity to award the base progressive amount of the local area progressive jackpot, AcSEC believes an accrual is only required at the earlier of (*a*) the point at which a jackpot is won by a customer or (*b*) the point when the gaming entity decides to remove the progressive slot machine from the gaming floor.[2] For the incremental progressive amount, which is based on past play, AcSEC believes an accrual should be recorded over the time period in which the incremental progressive jackpot amount is generated, and the accrual should be calculated based on the level of customer play. AcSEC believes the offsetting debit should be one of the deductions to arrive at net gaming revenue.

4.11 WAP jackpots are the responsibility of the WAP operator, not the gaming entity. For those jackpots, AcSEC believes the WAP operator should follow the accounting in the preceding paragraph 4.10 for the base progressive amounts and the incremental progressive amounts. In addition, WAP operators' record accruals for funds received from gaming entities related to funding of the base progressive amounts in accordance with gaming regulations and the WAP operators' contracts with gaming entities. Such accruals should be recognized as funds are received from the gaming entities. The revenues recorded by the WAP operator for fees charged to gaming entities should be recognized as gross revenues in accordance with Emerging Issues Task Force Issue No. 99-19, "Reporting Revenue Gross as a Principal versus Net as an Agent." The offsetting debit for recording jackpots and other liabilities should be recorded as a component of cost of sales. This differs from a gaming entity's treatment of the offsetting debit under the basic gaming revenue model because of the difference in the nature of transactions between (1) a WAP operator and a gaming entity and (2) a gaming entity and its customers. Winners of certain WAP jackpots have the option to receive their winnings in periodic installments over time or as a one time distribution equal to the present value of those future payments. The present value of the future payments should be used to

[1] As discussed in chapter 5 of this guide, this accounting also applies to wide area progressive machines operated by a gaming entity at multiple of its own locations.

[2] Accounting Standards Executive Committee believes the regulatory requirement alone is not a reason to accrue a liability for the base progressive jackpot. The gaming entity has the right to satisfy the regulatory requirement by leaving the machine on the floor. Only when the gaming entity makes a decision to remove the progressive machine from the gaming floor has it incurred a liability (absent a jackpot being won by the customer).

determine the liability.

Chapter 5—Participation and Similar Arrangements

Applicability: *This chapter provides guidance applicable to nongovernmental gaming entities. Governmental gaming entities should refer to chapter 12 of this guide and consider the implications of Governmental Accounting Standards Board pronouncements that conflict with or contradict guidance provided in this chapter.*

Background

5.01 Gaming entities periodically enter into *participation arrangements* with gaming suppliers. In participation arrangements, the title to the slot machine is typically retained by an owner/seller[1], such as the manufacturer of a machine. The agreements between the gaming entity and the owner/seller stipulate that the entity and the owner/seller share (participate) in the gaming activity, by sharing either the *win* or by the gaming entity paying a fixed percentage of *coin in* or a flat fee to the owner/seller.

5.02 Gaming entities periodically enter into *third party licensing* arrangements with the owner/seller of a copyrighted game or other intellectual property. Title to the intangible asset (the copyrighted game or intellectual property) is typically retained by the owner/seller who receives a flat fee per specified time period or percentage of coin in or net gaming win. Such arrangements may be day-to-day, month-to-month, or for periods exceeding twelve months.

5.03 From the perspective of a gaming entity, *wide area progressive* (WAP) *arrangements* function in a manner similar to participation arrangements but are not participation arrangements. In WAP arrangements, the fees paid by the entity to the third party administrator primarily relate to the services provided to maintain and operate a wide area progressive system, including the WAP jackpot.

Summary of Selected Accounting Literature

5.04 The primary accounting literature relating to participation and similar arrangements is Financial Accounting Standards Board (FASB) Statement No. 13, *Accounting for Leases*, Emerging Issues Task Force (EITF) Issue No. 01-8, "Determining Whether an Arrangement is a Lease," EITF Issue No. 99-19, "Reporting Revenue Gross

[1] This document uses the term *owner/seller* to refer to the party providing the machine. In practice, the manufacturer is typically the owner/seller of the machine or the copyright or license right holder (for intellectual property or license rights pertaining to games). The owner/seller may, however, be a party that purchased a machine from an owner/seller or the copyright or license right holder.

as a Principal versus Net as an Agent," and for entities subject to regulation by the Securities and Exchange Commission (SEC), SEC Codification of Staff Accounting Bulletins, Topic 13: *Revenue Recognition.*

Analysis of Lease Criteria for Various Pricing Arrangements

5.05 To determine whether the arrangement should be accounted for as a lease under FASB Statement No. 13, the specific terms of each contract governing a participation, third party license, or WAP arrangement should be analyzed by each party to the arrangement using the criteria set forth in EITF Issue No. 01-8.

Conclusions and Income Statement Presentation

5.06 Participation arrangements are typically leases. Typically, gaming entities would report these arrangements as operating leases because none of the conditions in paragraph 7 of FASB Statement No. 13 have been met. Accordingly, the income statement classification of the fees paid pursuant to these arrangements should be an expense rather than a contra revenue.

5.07 Third party license arrangements are typically not leases. The fees paid pursuant to these arrangements should be reported as an expense; that is, the arrangement should be reported "gross" in accordance with EITF Issue No. 99-19.

5.08 If a WAP arrangement is not a lease,[2] gaming entities should report fees paid to the owner/seller pursuant to a WAP arrangement as contra revenue consistent with the gaming entities' treatment of jackpots paid and payments for jackpot insurance. As described in chapter 4, owners/sellers should recognize revenue for the fees charged to gaming entities and recognize expenses for the jackpots it pays.

[2] If a wide area progressive arrangement is determined to be a lease, income statement presentation and disclosure information would be consistent with the guidance in paragraph 5.06 for participation agreements that are determined to be leases for accounting purposes.

Chapter 6—Loyalty and Incentive Programs

> ***Applicability:*** *This chapter provides guidance applicable to nongovernmental gaming entities. Governmental gaming entities should refer to chapter 12 of this guide and consider the implications of Governmental Accounting Standards Board pronouncements that conflict with or contradict guidance provided in this chapter.*

Summary of Selected Accounting Literature

6.01 The Financial Accounting Standards Board (FASB), Accounting Standards Executive Committee (AcSEC), and the FASB Emerging Issues Task Force (EITF), previously considered, but reached no consensus, on the broad issue of reporting loyalty and incentive transactions described in chapter 3 of this guide.[1] The FASB's EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)," provides guidance that is applicable to some of these incentive programs and activities, but diversity in practice in the gaming industry exists in applying some of that guidance. In addition to EITF Issue No. 01-9, readers may also consider referring to the guidance found in paragraph 8 of FASB Statement No. 5, *Accounting for Contingencies*; Securities and Exchange Commission Codification of Staff Accounting Bulletins, Topic 13: *Revenue Recognition* (Topic 13), and Topic 13.A.3, *Delivery and Performance*; and paragraphs 35 and 36 of FASB Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements.*

General Description of, and Accounting for, Loyalty and Incentive Programs

6.02 The various forms of incentive programs offered by gaming entities are described in paragraphs 3.33–3.40 of this guide. Those incentives can generally be considered *discretionary* or *nondiscretionary* (terms discussed further in the following text) for purposes of determining the proper accounting for each form of incentive.

Discretionary Incentive Programs

6.03 Discretionary incentives are offered to customers either (1) based on past levels of play or (2) to induce future play. In either case, prior to the incentive being offered to the

[1] The Financial Accounting Standards Board (FASB) currently has a Revenue Recognition project that will begin to address this issue. Readers are advised to monitor the project's progress. For additional information, refer to the FASB's Web site at www. fasb.org.

customer, there is no obligation on the part of the gaming entity to provide the incentive through a loyalty program or otherwise.

6.04 Incentives offered in advance of the related revenue are offered to induce customers to achieve some desired level of gaming activity. In determining to whom and in what amount to offer discretionary incentives, gaming entities typically use information about past gaming transactions. Though such incentives are offered based on past play, the discretionary incentives are, nevertheless, given to induce current or future play, rather than as an obligation based on past play.

6.05 Discretionary incentives are typically considered part of the normal marketing activities of the gaming entity. For example, offers such as free play, cash, or cash equivalents (including discounts on credit balances), complimentaries, or other benefits offered to potential customers are generally made with the expectation of related revenue transactions and may be conditioned on the potential customer agreeing to play a certain dollar amount during a specified future period.

6.06 In circumstances, in which the incentive relates to a future revenue transaction, paragraph 22 of issue 4 of EITF Issue No. 01-9, provides guidance in recognizing the "cost" of the incentive at the later of the following events:

- The date at which the related revenue is recognized by the vendor, or
- The date at which the sales incentive is offered (which would be the case when the sales incentive offer is made after the vendor has recognized revenue; for example, when a manufacturer issues coupons offering discounts on a product that it already has sold to retailers).

6.07 In gaming, discretionary incentives may be offered in advance of earning the related gaming revenue (such as in an offer mailed to potential customers) or after the related revenue (such as a complimentary meal offered to a customer after several hours of playing slot machines). Therefore, in any case, the incentive is recognized at the time the related revenue is recognized because either (1) the revenue is the later of the two events or (2) the offer is the later of the two transactions but is offered immediately after the revenue is recognized. Viewed another way, there is no "cost" of the incentive without the related revenue events. The cost of such incentives is typically charged as an expense to the department which they benefit.

6.08 Accounting for various forms of specific incentives offered on a discretionary basis is described in paragraphs 6.13–6.16 of this guide.

Nondiscretionary Incentive Programs

6.09 Nondiscretionary incentive programs offer incentives based on past gaming activity. The primary form of nondiscretionary incentive program is a point-based loyalty program, in which customers earn points as they play and can redeem those points for something of value, whether cash, free play, or other incentives such as complimentaries.

6.10 For nondiscretionary incentive programs, AcSEC believes it is acceptable practice to report these programs using either (*a*) a deferred revenue model or (*b*) an immediate revenue/cost accrual model. AcSEC believes the deferred revenue model is appropriate in all circumstances, while the immediate revenue/cost accrual model is acceptable in only certain circumstances. For example, AcSEC believes an immediate revenue/cost accrual model is inappropriate in circumstances in which (*a*) a significant number of paying customers are displaced by customers redeeming awards,[2] or (*b*) the value of an individual award is significant as compared with the purchase earning the award.

6.11 Under a deferred revenue model,[3] a portion of the revenue from the original transaction is attributed to the incentive based on a relative fair value allocation, and the deferred portion of the revenue is recognized when the incentive is redeemed. Accounting for various forms of specific incentives offered on a nondiscretionary basis is described in paragraphs 6.17–6.26 of this guide.

6.12 Under an immediate revenue/cost accrual model, costs are typically measured using an incremental cost model. The incremental cost for points that can be redeemed for cash is the full cash value. The gaming entity will have to use judgment to determine the incremental cost to be assigned to other incentives earned. In connection with such programs, gaming entities accrue a liability as points are earned under such programs, based on the relative value of each point earned. Amounts accrued may reflect expected breakage if the requirements of EITF No. 01-9 are met.[4]

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2 For purposes of applying the guidance in this guide, the fact that a customer redeeming an award might otherwise have been a paying customer had they not redeemed the award should not lead to the conclusion that a paying customer has been displaced by a customer redeeming an award. In other words, a customer redeeming an award does not displace themselves as a paying customer for purposes of applying the guidance in this guide.

3 See Emerging Issues Task Force (EITF) Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" paragraph 23, for a discussion regarding the recognition of a liability (or *deferred revenue*).

4 Expected breakage represents the portion of calculated customer benefits earned (or portions thereof) that the entity estimates will not be redeemed. It includes expected breakage for amounts transferred to customers and not redeemed, as well as expected breakage for points that will not be redeemed because customers have not reached specified thresholds. If the entity cannot reasonably estimate amounts that will be claimed, measurement should be based on the maximum amount that may be claimed.

Specific Accounting for Various Discretionary Incentives

Free Play Offered Other Than Through Loyalty Programs

6.13 The economic effect of free play is to provide cashable benefits that increase the customer's odds of winning, changing the basic odds of the game. Furthermore, the use of free play will not trigger accounting recognition because revenue is measured based on an aggregate daily (or shift) basis, rather than on a per bet or per customer basis. Because revenue is the net win from gaming activities, the use of the benefit has no effect on the reporting of net win or loss from gaming activities. For example, if a customer bets $5 of their own cash and wins $1, the gaming entity reports revenue of $4. If a customer bets $5 of their own cash, uses $5 of credits from their club card, and wins $1, the gaming entity reports revenue of $4. In each transaction, the net win is $4, but the hold percentages are different in the two transactions. Also, pursuant to paragraph 9 of EITF Issue No. 01-9, cash consideration given as a sales incentive is presumed to be a reduction in selling price.

Cash or Cash Equivalents Offered Other Than Through Loyalty Programs

6.14 As discussed in paragraph 6.07, discretionary incentives are recognized at the date at which the related gaming revenue is recognized. For example, assume a gaming entity offers a customer a 10 percent discount on their losses if the customer meets certain criteria. Further, assume the customer meets the criteria and their play results in $1 million of gaming win for the gaming entity (before the 10 percent discount) and a related marker due from the customer. The revenue (and the related receivable) should be reduced to $900,000 to reflect the 10 percent discount because, pursuant to paragraph 9 of EITF Issue No. 01-9, cash consideration given as a sales incentive is presumed to be a reduction in selling price.

6.15 In some circumstances, cash is offered to customers as a marketing incentive. As an example, customers, as part of bus trips to casinos, may be entitled to a roll of coins, with an aim toward having the customers enter the casino and play slot machines with those coins. Some customers, however, choose not to play and simply retain those coins. Such incentive programs are aimed at generating incremental gaming revenue from the customer group in aggregate, rather than by individual customer. Given that purpose and the fact that nonusage of the coins is insignificant, the cost of the incentive should be netted against revenue.

Complimentaries Offered Other Than Through Loyalty Programs

6.16 Pursuant to paragraph 10 of EITF Issue No. 01-9, noncash consideration given as a sales incentive should be reported as an expense, rather than a reduction of revenue. Accordingly, discretionary complimentaries are typically reported as expenses. Expenses for complimentaries are typically reported at cost (no revenue should be reported as a result of providing complimentaries).

Specific Accounting for Various Nondiscretionary Incentives

Free Play Offered Through Nondiscretionary Loyalty Programs

6.17 As discussed in paragraph 6.13, the economic effect of free play is to provide cashable benefits that increase the customer's odds of winning. Pursuant to paragraphs 30–32 of EITF Issue No. 01-9, *Issue 6*, a cost and liability for amounts owed as free play under nondiscretionary loyalty programs should be accrued. The basis for concluding that the gaming entity should report a liability for amounts owed as free play is that to the extent that a customer is entitled to free play, the gaming entity has a present obligation to transfer economic benefits to the customer, with the economic benefit being the estimated amount the customer will win by exercising the free play. If a customer earns free play (or points that can be redeemed for free play) based on the level of play, the gaming entity should accrue a liability for cash that it expects to pay (as a result of customers redeeming the free play or redeeming the points), as the points are earned. The liability should be measured based on the expected payout percentage, net of expected breakage, based on the amount of free play owed. In measuring the liability, gaming entities should not assume play beyond the free play amount because the customer is only required to play the free play through the machine (or other game) once. Pursuant to paragraph 10 of EITF Issue No. 01-9, AcSEC believes that the cost of free play is recorded as contra revenue. AcSEC considered whether free play was a deliverable in an exchange transaction and not a rebate or refund of a portion of the amount charged to the customer. AcSEC believes free play to be a cashable benefit rather than a deliverable in an exchange transaction because the economic effect of free play is to increase the customer's odds of winning, which is akin to a refund of a portion of the amount charged to the customer (played). Additionally, AcSEC believes that offering free play increases the customer's odds of winning cash by providing a payout of economic benefits that are expected to be converted into cash through gaming activity.

6.18 For example, assume that a customer played $10,000 on a slot machine, received $9,300 in cash payouts and earned 10,000 points entitling them to $100 of free play. Further, assume the gaming entity's average hold percentage is 7 percent. For purposes of simplicity, there is no assumed expected breakage in this example. Under the immediate revenue/cost accrual method, the gaming entity should debit gaming revenue and credit the free play liability for $93, as the points are earned. Combined with the recognition of the $700 of gaming revenue in the related transaction, **net gaming revenue for the period is $607**. When the customer exercises the free play, the gaming entity should debit the free play liability and credit gaming revenue for $93. Under this model, in the period of redemption, assuming the customer plays only the $100 of free play and the gaming entity achieves the average hold percentage of 7 percent, **net gaming revenue for the period of redemption would be $0** (representing a $93 debit to gaming revenue for the payouts on the $100 of free play, at a 7 percent hold percentage, offset by the $93 credit to gaming revenue to eliminate the free play liability).

6.19 Assuming the same facts, under the deferred revenue model as discussed in paragraph 6.11, the gaming entity should defer $99 of the amounts played based on the following calculation: The two elements of the transaction are the play with a fair value of $10,000 and the future free play with a fair value of $100. The deferral percentage is 100/10,100, or .99 percent. Applied to the $10, 000, this means $99 of revenue should be deferred. Combined with the recognition of the $700 of gaming revenue in the related transaction, **net gaming revenue for the period is $601**. Under this model, in the period of redemption, assuming the customer plays only the $100 of free play, and the gaming entity achieves the average hold percentage of 7 percent, **net gaming revenue for the period of redemption would be $6** (representing a $93 debit to gaming revenue for the payouts on the $100 of free play, at a 7 percent hold percentage, offset by the $99 credit to gaming revenue to record the deferred gaming revenue).

Cash or Cash Equivalents Offered Through Nondiscretionary Loyalty Programs

6.20 The economic effect of providing cash or cash equivalent benefits based on the level of play is to increase the customer's odds of winning. Pursuant to paragraphs 30–32 of EITF Issue No. 01-9 (Issue 6), a cost and liability for amounts owed as cash or cash equivalent benefits under nondiscretionary loyalty programs should be accrued. The basis for concluding that the gaming entity should report a liability for amounts owed as cash or cash equivalent benefits is that to the extent a customer is entitled to those cash or cash equivalent benefits, the gaming entity has a present obligation to transfer economic benefits to the customer. The liability should be measured, net of expected breakage,[5],based on the amount of cash owed, and in measuring the liability; the gaming entity should not assume that the customer will play with that cash. The offset to that liability recognition should be contra revenue, pursuant to paragraph 9 of EITF Issue No. 01-9 because by transferring the right to those cash or cash equivalent benefits, the gaming entity effectively reduced gaming revenue from the bets placed that entitled the customer to the cash or cash equivalent benefits.

6.21 For example, assume a customer played $10,000 on a slot machine, received $9,300 in cash payouts, and earned 10,000 points entitling them to $100 of cash back. For purposes of simplicity, there is no assumed breakage in the example. Under either the immediate revenue/cost accrual method or the deferred revenue model, the gaming entity should debit gaming revenue and credit cash benefit liability (under the immediate revenue/cost accrual model) or deferred revenue (under the deferred revenue model) for $100, as the points are earned. Combined with the recognition of the $700 of gaming revenue in the related transaction, **net gaming revenue for the period is $600**. When the award is redeemed, the gaming entity should debit the cash benefit liability and credit cash.

[5] Breakage from nondiscretionary loyalty programs is not typically considered to be abandoned property, and escheat laws are generally inapplicable to such programs.

Complimentaries Offered Through Nondiscretionary Loyalty Programs

6.22 The economic effect of providing complimentaries based on nondiscretionary loyalty programs is similar to a multiple element arrangement. However, EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables," explicitly excludes broad based loyalty programs from its scope. In the absence of authoritative guidance, both the deferred revenue and immediate revenue/cost accrual models have been used to account for complimentaries offered through nondiscretionary loyalty programs.

6.23 When the immediate revenue/cost accrual model is used, AcSEC believes that costs of complimentaries should be accrued when the related revenue is recognized and, pursuant to paragraph 10 of EITF Issue No. 01-9, such amounts should be charged to expense. AcSEC's basis for believing that the gaming entity should report a liability for complimentaries owed is that to the extent that a customer is entitled to those complimentaries, the gaming entity has a present obligation to transfer economic benefits to the customer. The offset to that liability recognition should be an expense, pursuant to paragraph 10 of EITF Issue No. 01-9 because by transferring the right to those complimentaries, the entity is providing a free product or service that is a deliverable in an exchange transaction, rather than a refund or rebate of a portion of the amount charged to the customer.

6.24 For example, assume that a customer played $10,000 on a slot machine, received $9,300 in cash payouts, and earned 10,000 points entitling them to $100 of complimentaries. Further, assume the gaming entity's average hold percentage is 7 percent. Further assume that the gaming entity determined that the incremental cost of $100 of complimentaries is $30. For purposes of simplicity, there is no assumed expected breakage in this example. Under the immediate revenue/cost accrual method, the gaming entity should debit gaming expense and credit the complimentary liability for $30, as the points are earned. **Net gaming revenue for the period is $700**. When the customer redeems the complimentaries, the gaming entity should debit the loyalty program liability and credit the appropriate revenue source for $30 (along with recognizing the actual cost of providing the complimentary service).[6]

6.25 Assuming the same facts, under the deferred revenue model, the gaming entity should defer $99 of the amounts played based on the following calculation: The two elements of the transaction are the play with a fair value of $10,000 and the future complimentaries with a fair value of $100. The deferral percentage is 100/10,100, or .99 percent. Applied to the $10,000, this means $99 of revenue should be deferred. Combined with the recognition of the $700 of gaming revenue in the related transaction, **net gaming revenue for the period is $601**. Under this model, in the period of

[6] The revenue and gaming expense are ultimately "eliminated" in the gaming entity's financial statements. As discussed in paragraph 4.16, no revenue should be reported as a result of providing complimentaries.

redemption, **net gaming revenue for the period of redemption would be $99** (along with recognizing the actual cost of providing the complimentary service).

6.26 The following table summarizes the resulting revenues under the immediate revenue/cost accrual model, and the deferred revenue model from the various examples of nondiscretionary incentives presented in paragraphs 6.17–6.25.

	Immediate revenue/cost accrual			Deferred revenue		
	Period 1	**Period 2**	**Total**	**Period 1**	**Period 2**	**Total**
Freeplay	$ 607	$ –	$ 607	$ 601	$ 6	$ 607
Cash	600	–	600	600	–	600
Complimentaries	700[7]	–[8]	700	601	99[9]	700

Nondiscretionary Loyalty Programs in Which Customers Have the Option of Choosing Multiple Types of Incentives

6.27 Some gaming entities have nondiscretionary incentive programs that provide customers with a choice of free play, cash, complimentaries, or other economic benefits. In circumstances in which liabilities are recognized in conformity with the guidance in this chapter, those liabilities should be measured based on the amounts and types of benefits the gaming entity expects to provide in circumstances in which the gaming entity can reasonably and reliably estimate such amounts based on its history. In circumstances in which the gaming entity cannot reasonably and reliably estimate such amounts based on its history, the liability should be measured based on a presumption that customers will choose to receive incentives with the highest cost to the gaming entity, taking into consideration expected breakage.[10] The cost and redemption of such incentives should be reported based on the type of incentive liability reported.

[7] Also recognize gaming department expense of $30 for the estimated cost of providing the complimentary goods or services.

[8] Recognize nongaming revenue of $30 and the actual cost of providing the complimentary goods or services. The $30 of nongaming revenue and $30 of gaming department expense are ultimately "eliminated."

[9] Also recognize the actual cost of providing the complimentary goods or services.

[10] Typically, cash incentives have the highest cost to the gaming entity, followed by free play, and then complimentaries, assuming the face amount of the incentives are equal.

Incentive Programs That Provide Customers With Designated Status Without Entitling Customers to Any Economic Benefits

6.28 Some gaming entities have incentive programs that provide customers with a designated status without entitling the customers to any cash, complimentaries, or other economic benefits, though that status may lead to complimentaries or other benefits, subject to the approval of management. Such programs generally do not result in an accounting recognition prior to offering such benefits because there is no obligation to transfer resources to customers.

Financial Statement Disclosures

6.29 Generally, policies pertaining to accounting for loyalty and incentive programs are disclosed in accordance with Accounting Principles Board (APB) Opinion No. 22, *Disclosure of Accounting Policies*. Typical information provided by gaming entities include the nature of the programs, whether an immediate revenue/cost accrual model or a deferred revenue model is applied, and how the related liabilities or deferrals are calculated (including the method of determining the cost of complimentary goods and services and whether breakage has been considered).

Chapter 7—Gaming License, Project Development, and Preopening and Start-Up Costs

> ***Applicability:*** *This chapter provides guidance applicable to nongovernmental gaming entities. Governmental gaming entities should refer to chapter 12 of this guide and consider the implications of Governmental Accounting Standards Board pronouncements that conflict with or contradict guidance provided in this chapter.*

Background

7.01 Gaming entities incur a variety of costs prior to opening a new gaming facility. Generally, these types of costs can be classified as follows:

- Costs to obtain a gaming license
- Project development costs
- Preopening and start-up costs

7.02 Accounting for these costs has sometimes been diverse in practice. For instance, gaming entities have applied different policies in determining when to begin capitalization of costs when seeking to obtain a gaming license. Also, the determination of which costs to classify as preopening and start-up expenses has varied among gaming entities. In addition, accounting for certain of these costs can be dependent on the rules and regulations within each gaming jurisdiction. For example, many jurisdictions have license renewal requirements that are essentially perfunctory, so gaming entities have generally concluded that license costs related to these jurisdictions are indefinite lived intangible assets.

Summary of Selected Accounting Literature

7.03 The primary accounting literature relating to gaming license costs is Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Intangible Assets*. The likelihood concepts referred to in this chapter are similar to those defined in FASB Statement No. 5, *Accounting for Contingencies*. The primary literature for preopening and start-up costs is AICPA Statement of Position (SOP) 98-5, *Reporting on the Costs of Start-up Activities* (AICPA, *Technical Practice Aids*, ACC sec. 10,750). Although FASB Statement No. 67, *Accounting for Costs and Initial Rental Operations of Real Estate Projects* specifically excludes real estate developed for an entity's own use from its scope, gaming entities often find certain guidance in FASB Statement No. 67 helpful by analogy due to the similarity of certain initial costs incurred when constructing a gaming facility and the costs associated with the development of other real estate projects.

Costs to Obtain a Gaming License

7.04 A gaming entity may incur costs in advance of obtaining a gaming license. For instance, a gaming entity may incur legal or other third party costs to determine if a gaming facility is financially feasible in a particular market. Or, a gaming entity may incur lobbying costs or make payments or enter into financial commitments[1] in an effort to obtain approval from the gaming authorities for the gaming license.

7.05 Such costs incurred prior to it being probable that the gaming entity will obtain the license are expensed as incurred. The determination that obtaining a gaming license is probable will require the judgment of the gaming entity. This determination is based on the facts and circumstances of each situation, such as the gaming entity's history in obtaining licenses and the specific jurisdiction's history in granting licenses.

7.06 Once a gaming entity believes that the likelihood of obtaining a gaming license is probable, certain costs incurred by gaming entities are generally capitalized.[2] These costs are considered part of the cost of the gaming license, an intangible asset.

7.07 Internal costs, overhead, and other costs required to be expensed under existing literature (such as most advertising costs) are expensed as incurred.

7.08 If the gaming license is an asset with a finite life, the costs are amortized over its expected life, typically, the stated term of the license.[3] Determining whether a gaming license has an indefinite or finite life frequently requires judgment, including considering the nature of the renewal process and additional economic sacrifices, if any, required when renewing the license. For example, certain jurisdictions restrict the number of gaming licenses and allow for these licenses to be renewed on a periodic basis only after a review by the gaming regulator. Generally, if the regulatory review focuses primarily on objective criteria, such as financial viability and the gaming entity's long-term

[1] Payments or commitments may consist of payments or commitments made to governments or not-for-profit organizations for the costs of transportation infrastructure, other government services infrastructure (such as a police station), ongoing government services (such as an increased annual police budget), or other related costs. The payments or commitments may take the form of a cash payment, donations of land or other real property, or other forms.

[2] See footnote 1 for examples of the types of costs incurred. Only one time costs incurred in connection with and contractually related to obtaining the license is capitalized. Ongoing future costs, such as annual police department funding, are not capitalized because they are generally conditional on continuing operations.

[3] For additional guidance, refer to proposed Financial Accounting Standards Board (FASB) Staff Position (FSP) FAS 142-3, *Determination of the Useful Life of Intangible Assets.* Effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Earlier application is not permitted..

business plans and ethics, and the regulator does not have a history of revoking gaming licenses, the gaming entity may be able to conclude the gaming license has an indefinite life because renewal is insignificant. If, on the other hand, such renewal is not perfunctory, the cost of renewal is material, or the regulator has a history of revoking licenses, then a gaming entity would generally conclude there is a finite life to the license and would amortize the asset over its expected life (typically, the initial period for which the gaming license is granted).

7.09 Intangible assets, such as a gaming license, that have an indefinite life are assessed for impairment in accordance with the provisions of FASB Statement No. 142. Intangible assets, such as a gaming license, that have a finite life are assessed for impairment in accordance with the provisions of FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Project Development Costs

7.10 A gaming entity may incur costs in advance of construction of a new gaming facility, but after obtaining the gaming license, and the incurrence of such costs may be a condition of obtaining the right to construct the gaming facility (such as a condition of permitting).[4] Such costs might also be similar to those described in paragraph 14 of FASB Statement No. 67. Though FASB Statement No. 67 does not apply to real estate projects developed for an entity's own use, gaming entities often apply the guidance in paragraph 14 of FASB Statement No. 67 by analogy.

7.11 For example, project costs for a gaming facility may include the cost of an asset constructed on behalf of a municipality and donated to the municipality, such as a pedestrian bridge to facilitate better traffic flow around the new gaming facility. Costs incurred that benefit the gaming facility to be constructed and are a condition to the construction are generally capitalized as part of the cost of the gaming facility, regardless of whether the gaming entity retains title to the asset. Such costs are then amortized over the life of the related asset(s).

Preopening and Start-Up Costs

7.12 Certain costs that may be incurred in connection with the opening of a gaming facility may be subject to the provisions of SOP 98-5, while other costs are accounted for in accordance with other existing authoritative accounting literature. Examples of costs associated with the opening of a gaming facility include the following:

- Recruiting new employees

[4] Such costs may also be incurred in connection with a significant expansion of an existing facility, in which case the guidance in paragraphs 7.10–7.11 would also apply.

- Relocation costs
- Training of new employees
- Payroll for employees directly associated with the opening of the gaming facility
- Consultants hired to assist the gaming entity in opening the gaming facility
- Operating costs of the gaming facility prior to opening but after construction is complete, such as real estate taxes
- Direct advertising and marketing costs incurred in connection with the opening of the gaming facility
- Incremental office lease space used by the gaming entity prior to the opening of the gaming facility

7.13 Costs within the scope of SOP 98-5 are to be expensed as incurred. Although SOP 98-5 does not have any explicit classification or disclosure requirements, practice in the gaming industry has evolved to separately report costs of start-up activities on a line item in the income statement titled, "Preopening expenses" (or similar title) and to include, in addition to items under the scope of SOP 98-5, other items related to the opening or expansion of gaming facilities, such as advertising costs. If material, gaming entities generally also include in the footnotes to the financial statements the nature of the items included in the "preopening expenses" line item and the amount of each component of those costs. Gaming entities that include such costs within another income statement line item (that is, do not separately present preopening and start-up expenses on the statement of operations) generally disclose the amount of such costs included in the relevant income statement line item, if material.

Chapter 8—Managing Properties for Third Parties

> ***Applicability:*** *This chapter provides guidance applicable to nongovernmental gaming entities. Governmental gaming entities should refer to chapter 12 of this guide and consider the implications of Governmental Accounting Standards Board pronouncements that conflict with or contradict guidance provided in this chapter.*

Background

8.01 A gaming entity may incur[1] or commit to incur amounts in efforts to obtain the right to manage a gaming property owned by a third party (the Managed Property). Amounts may also be incurred or committed in connection with an existing management agreement. Frequently, the Managed Property is owned by a state, local, or tribal government.

8.02 The gaming entity, in some circumstances, pays or commits to pay amounts to organizations designated by the owner of the Managed Property. Typically, the mission of the organization designated to receive the remittance, such as an educational foundation, is to serve the Managed Property's owner or, if the owner is a government, its population. The Managed Property's owner, therefore, typically has a beneficial interest in the organization designated to receive those remittances.

8.03 In some circumstances, remittances made by the gaming entity pursuant to management agreements are for expenses that would otherwise be incurred by the Managed Property. For example, the gaming entity may agree to employ employees for the benefit of the Managed Property, or pay certain expenses for the benefit of the Managed Property, such as rent, utilities, or information technology functions.

8.04 In some circumstances, amounts remitted by the gaming entity to the Managed Property are structured as loans. Repayment of such amounts, however, may be contingent upon the Managed Property realizing a contractually defined level of revenues, net income, or other defined financial measure.

Summary of Selected Accounting Literature

8.05 The primary accounting literature relating to amounts incurred related to management contracts is Financial Accounting Standards Board (FASB) Statement No. 5, *Accounting for Contingencies*; FASB Statement No. 142, *Goodwill and Other*

[1] Amounts to be remitted may include capital assets and other assets, as well as cash and cash equivalents.

Intangible Assets; FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*; Emerging Issues Task Force (EITF) Issue No. 88-18, "Sales of Future Revenues;" and EITF Issue No. 01-14, "Income Statement Characterization of Reimbursements Received for 'Out-of-Pocket' Expenses Incurred."

8.06 The Accounting Standards Executive Committee (AcSEC) believes that FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, is not applicable because the transactions contemplated in this chapter are exchange transactions, rather than charitable contributions.

Accounting by the Gaming Entity Managing the Third Party Owned Property

Gaming Entity's Costs Prior to Obtaining the Management Agreement

8.07 The gaming entity may incur costs as part of its efforts to obtain a management agreement. For example, the gaming entity may fund the cost of a feasibility study or the design of a proposed casino to be built by the Managed Property's owner.

8.08 Costs incurred prior to it being probable that the gaming entity will obtain the management agreement should be expensed as incurred, similar to the accounting treatment for the costs incurred in efforts to obtain gaming licenses.[2] Consistent with FASB Statement No. 5, the event is considered probable when it is determined to be likely that it will occur.

8.09 Once the gaming entity believes that the likelihood of obtaining a management agreement is probable, certain costs incurred by the gaming entity are capitalized.[3] These costs are considered management contract acquisition costs, an intangible asset. Until the management agreement is awarded by the Managed Property's owner, the intangible asset should be tested for recoverability in accordance with the requirements of FASB Statement No. 144 whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Examples of events or changes in circumstances that might prompt such a test are provided in FASB Statement No. 144.

8.10 Once the management contract is awarded to the gaming entity, the useful life of the intangible asset should be assessed in accordance with the provisions of FASB Statement No. 142. Given that these assets typically have a finite life, the assets are generally amortized over a life equal to the term of the management agreement using a straight line method, unless evidence exists to support a different amortization method. Capitalized amounts should be evaluated for impairment in accordance with the provisions of FASB Statement No. 144.

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[2] See chapter 7, "Gaming License, Project Development and Preopening and Start-up Costs."
[3] See chapter 10, "Long-Lived Assets," for a discussion of industry specific events that may trigger the need for an impairment review.

8.11 If it becomes probable that the management contract will not be awarded to the gaming entity, any capitalized costs should be charged to expense.

Gaming Entity's Costs Related to an Existing Management Agreement

8.12 The gaming entity may incur costs during the term of the management agreement that are similar in character to the costs incurred in efforts to obtain the agreement. In accordance with the provisions of FASB Statement No. 142, the costs incurred by the gaming entity related to an existing agreement should be capitalized and amortized over a life, not to exceed the remaining term of the management agreement, and should be reflected in the income statement as a reduction of revenue. Such amortization should be determined using a straight line method, unless evidence exists to support a different amortization method. Given that these assets typically have a finite life, capitalized amounts should be evaluated for impairment in accordance with the provisions of FASB Statement No. 144 whenever events or changes in circumstances indicate that its carrying amount may not be recoverable.[4]

8.13 A gaming entity should report as expenses remittances made or amounts otherwise incurred pursuant to management agreements for expenses that would otherwise be incurred by the Managed Property. Examples of such costs that may be incurred by the gaming entity include compensation paid to employees hired for the benefit of the Managed Property, or expenses paid by the gaming entity for the benefit of the Managed Property, such as rent or utilities. Pursuant to EITF No. 01-14, a gaming entity should report as revenue all amounts received or due pursuant to management agreements for the reimbursement of expenses described in the previous sentence.

8.14 For example, assume a gaming entity pays employees hired for the benefit of the Managed Property $50,000 in monthly payroll. The Managed Property reimburses the gaming entity for this $50,000 each month, in addition to the management fee payable under the management agreement. In these circumstances, each month the gaming entity would record $50,000 in compensation expense for the amount paid to the employees and $50,000 of revenue for the amount received as reimbursement from the Managed Property each.

Financial Statement Classification of Amounts Paid on Behalf of the Managed Property

8.15 Amounts remitted from the gaming entity to the Managed Property, or paid by the gaming entity to third parties on behalf of the Managed Property, may be reported as either loans receivable by or an expense of the gaming entity. In determining whether such amounts are receivables or expenses, the gaming entity should consider all relevant

[4] Refer to footnote 3.

facts and circumstances, including but not limited to, whether repayment of such amounts is contingent on future earnings.

Accounting by the Managed Property[5]

8.16 Amounts may be remitted by the gaming entity to (or commitments may be made by the gaming entity to make remittances to) designated organizations in connection with agreements to manage the Managed Property, or in efforts to obtain the right to manage the Managed Property. In circumstances in which the Managed Property is not the primary obligor of the amounts paid, such amounts should not be reported in the Managed Property's financial statements unless the designated organizations are consolidated into the financial statements of the Managed Property.

8.17 In circumstances in which the Managed Property reimburses the gaming entity for costs paid on the Managed Property's behalf, the expense should be reported in the financial statements by the Managed Property according to its functional classification, rather than being reported as additional management fee expense. For example, assume the Managed Property reimburses the gaming entity for payroll costs as described in paragraph 8.14. In this example, the Managed Property would record $50,000 of operating expense in its financial statements.

8.18 In circumstances in which the gaming entity pays costs on behalf of the Managed Property, but does not receive reimbursement other than via a management fee, the Managed Property should report such costs in its financial statements according to their functional classification, rather than as management fee expense. For example, assume the gaming entity pays the utility bills for the Managed Property pursuant to the terms of the management agreement. If the gaming entity paid $100 for the Managed Property's utilities during the reporting period, the Managed Property would reclassify $100 of expense from management fee expense to utility expense.

8.19 Amounts remitted to the Managed Property by the gaming entity would be reported as either loans payable by or revenue of the Managed Property. In determining whether such amounts are payables or revenues, the Managed Property should consider all relevant facts and circumstances, looking to the economic substance and nature of the transaction, including but not limited to, whether repayment of such amounts is contingent on future earnings. AcSEC believes that the factors outlined in EITF No. 88-18 are among the considerations to be evaluated when determining the appropriate classification of such balances.

Disclosures

8.20 Many gaming entities conclude the requirements of FASB Statement No. 57,

[5] The accounting discussed in this section applies only to nongovernmental gaming entities.

Related Party Disclosures, apply because the gaming entity either controls or can significantly influence the management or operating policies of the Managed Property to an extent that one of the parties might be prevented from fully pursuing its own separate interests. If FASB Statement No. 57 applies, the following information about management agreements should be disclosed in their respective financial statements:

- The nature of the relationship(s) involved
- A description of the transactions, including transactions to which no amounts or nominal amounts were ascribed, for each of the periods for which income statements are presented, and such other information deemed necessary to an understanding of the effects of the transactions on the financial statements
- The dollar amounts of transactions for each of the periods for which income statements are presented and the effects of any change in the method of establishing the terms from that used in the preceding period
- Amounts due from or to parties to the contract as of the date of each balance sheet presented and, if not otherwise apparent, the terms and manner of settlement

The accounting treatment of the transactions should also be disclosed.

8.21 The following example illustrates a disclosure made by the gaming entity pursuant to the guidance in paragraph 8.20.

> In September 2004, the gaming entity entered into a five-year management agreement with Managed Property. Gaming entity provides key executive management personnel, facilities (including gaming equipment), and utilities in exchange for 7 percent of Managed Property's revenues. In connection with negotiating the management agreement with Managed Property, gaming entity agreed to make certain payments, including $1,000,000 to the XYZ Educational Foundation, a not-for-profit organization serving constituents of the owner of the Managed Property. Gaming entity recorded this payment as a management contract acquisition cost and is amortizing the payment to expense over the life of the management contract on a straight line basis. For the year ended December 31, 2006, gaming entity recognized $1,500,000 of revenue and $800,000 of expenses in connection with the agreement. At December 31, 2006, gaming entity had a $250,000 receivable from Managed Property. Payment of this balance was received in January 2007.

Chapter 9—Guarantees

> ***Applicability:*** *This chapter provides guidance applicable to nongovernmental gaming entities. Governmental gaming entities should refer to chapter 12 of this guide and consider the implications of Governmental Accounting Standards Board pronouncements that conflict with or contradict guidance provided in this chapter.*

Introduction

9.01 Gaming entities and entities engaged in gaming activities (sometimes referred to hereafter as the *manager*) may guarantee all or part of the debt of unaffiliated gaming entities that they manage. The guarantee typically enables the unaffiliated entity to obtain financing or more favorable financing terms, or both. Such guarantees may be part of a transaction with multiple elements in which the manager, for example, may help an unaffiliated casino (*a*) obtain financing, (*b*) develop, construct, and open the casino, and (*c*) manage the casino.

Summary of Selected Accounting Literature

9.02 Financial Accounting Standards Board (FASB) Interpretation No. 45 (FIN No. 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* is the primary accounting guidance for guarantees. FIN No. 45 requires a guarantor to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. FIN No. 45 also defines the disclosures to be made by a guarantor in its financial statements about its obligations under certain guarantees that it has issued.

9.03 In addition to the guidance provided in FIN No. 45, consider the following guidance to assist in accounting for these activities: FASB Statement No. 5, *Accounting for Contingencies*; FASB Statement No. 142, *Goodwill and Other Intangible Assets*; FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*; FASB Statement No. 157, *Fair Value Measurements*; FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*; FASB Staff Position (FSP) FIN No. 45-2, *Whether FASB Interpretation No. 45,* Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value*; Emerging Issues Task Force (EITF) Issue No. 85-20, "Recognition of Fees for Guaranteeing a Loan;" EITF Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables;" and EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." Readers may also refer to the Illustrative Guidance when Accounting for

Guarantees presented in appendix B of this guide.

Initial Recognition and Measurement of the Guarantee

9.04 Paragraph 10 of FIN No. 45 provides that the measurement basis for the liability reported by the guarantor is the greater of (*a*) the fair value or (*b*) the contingent liability amount required to be recognized at inception of the guarantee by paragraph 8 of FASB Statement No. 5.

9.05 Paragraph 9 of FIN No. 45 discusses certain circumstances in which guarantees are issued and methodologies for determining fair value in those circumstances. Those circumstances and that discussion include, in part, the following:

- When a guarantee is issued in a standalone arm's length transaction with an unrelated party, the liability recognized at the inception of the guarantee should, as a practical expedient, be the premium received or receivable by the guarantor.
- When a guarantee is issued as part of a transaction with multiple elements with an unrelated party, the liability recognized at the inception of the guarantee should be an estimate of the guarantee's fair value. This estimate should, as a practical expedient, consider what premium would be required by the guarantor to issue the same guarantee in a standalone arm's length transaction with an unrelated party.

9.06 Under FASB Statement No. 157[1], the fair value measure of a liability is the price that would be paid to transfer that liability to a market participant at the measurement date, with no change in the obligor credit rating. FASB Statement No. 157 also establishes a hierarchy that prioritizes the inputs to valuation techniques into three broad levels. The facts and circumstances under which the guarantee was issued should be considered in determining the inputs to valuation techniques when calculating the fair value of the guarantee. For example, the contract may define a specific fee to be paid to the manager in exchange for providing a guarantee, or the contract fee structure may provide for a change in the fee if the guarantee is no longer required. While the contract may stipulate a fee to be paid in exchange for providing the guarantee, it should not be assumed that the stipulated fee reflects the fair value of the guarantee. The gaming entity should assess whether or not the contract terms represent the true economics of providing the guarantee.

9.07 In some circumstances, the probability of making payments under the guarantee may be small. Regardless of the likelihood of making payments under the guarantee, the

[1] For additional guidance, refer to proposed Financial Accounting Standards Board (FASB) Staff Position (FSP) FAS No. 157-c, *Measuring Liabilities under FASB Statement No. 157*.

guarantee's fair value should be determined.

9.08 The manager should record the estimated fair value of the guarantee as a liability in its statement of financial position.

9.09 Paragraph 11 of FIN No. 45 discusses, but does not prescribe, the accounting for the offsetting entry, a debit, arising from the recognition of the liability at inception of a guarantee. FIN No. 45 provides that the offsetting entry, a debit, depends on the circumstances in which a guarantee was issued. Some examples cited in FIN No. 45 include the recognition of cash or a receivable in a standalone transaction; an adjustment of the calculation of the gain or loss in a sale transaction; an increase in an investment in the formation of a venture, as prepaid rent in a leasing transaction accounted for under paragraph 15 of FASB Statement No. 13, *Accounting for Leases*; or as an expense.

9.10 The Accounting Standards Executive Committee (AcSEC) discussed the following possibilities for the classification of the offsetting debit to be recorded when a liability for fair value of the guarantee is recorded (as either a receivable or a contract acquisition cost, depending on the facts and circumstances):

- As a receivable, representing the portion of the management fee that should be recognized as a separate accounting unit pursuant to EITF Issue No. 00-21
- As a contract acquisition cost asset, representing an economic sacrifice that the guarantor made with an aim toward acquiring the contract and the ability to earn management fee revenue

9.11 Classification of the offsetting debit as a receivable reflects a view that the existence of the guarantee creates an obligation for which the guarantor is to be compensated, and the offsetting debit to that liability is a receivable from the borrower. AcSEC observes that the gaming entity owes the manager no money at the inception of the contract and, therefore, reporting the offsetting debit as a receivable would not be preferable because receiving fees for any element of the management agreement is contingent on the occurrence of future events. AcSEC also believes it is inconsistent to report a receivable for the portion of the overall management fee that would be allocated to the guarantee pursuant to an EITF Issue No. 00-21 model, while reporting no receivable for the portion of the overall management fee that would be allocated to the elements of the contract other than the guarantee.

9.12 When issued in connection with a management agreement, the offsetting debit arising from the issuance of the guarantee satisfies the three essential characteristics of an asset as defined in paragraph 26 of FASB Statement of Financial Accounting Concepts No. 6, *Elements of Financial Statements*. The offsetting debit (*a*) embodies a probable future benefit that involves a capacity to contribute to future cash inflows, (*b*) the manager can obtain the benefit and control other's access to it, and (*c*) the transaction giving rise to the manager's right to control the benefit has already occurred.

9.13 AcSEC's preference in circumstances in which the manager guarantees all or part of the debt of a gaming entity in conjunction with a management agreement is for the manager to record a contract acquisition cost asset as the offsetting debit when the manager recognizes the liability at the inception of the guarantee.

Income Statement Effect at Initial Recognition

9.14 AcSEC considered whether the initial recognition of the guarantee should affect revenues or expenses. AcSEC believes that providing the guarantee in connection with a management agreement in and of itself has no effect on net assets, and the earnings process has not been completed. That conclusion is reflected in the fact that liabilities and assets are recorded for equal amounts at initial recognition. Because an asset (the contract acquisition cost) and liability (guarantee) are recorded for the fair value of the guarantee at the initial recognition, and that agreeing to provide the guarantee is not the culmination of an earnings process, AcSEC believes the initial recognition of the guarantee has no immediate income statement effect.

Classification of the Contract or Customer Acquisition Cost

9.15 Under paragraph 42 of FASB Statement No. 142, the contract acquisition cost asset may be aggregated with other intangible assets in the statement of financial position or presented as a separate line item.

Subsequent Measurement of the Liability

9.16 Paragraph 12 of FIN No. 45 provides that the liability initially recognized by the manager would typically be reduced (by a credit to earnings) as it is released from risk under the guarantee. This guidance is consistent with the consensus reached in EITF Issue No. 85-20, which provides that fee income received by a guarantor should be recognized as income over the life of the guarantee. Depending on the nature of the guarantee, the manager's release from risk is typically recognized over the term of the guarantee (*a*) only upon either expiration or settlement of the guarantee, (*b*) by a systematic and rational amortization method, or (*c*) as the fair value of the guarantee changes. Method (*c*) can only be used if, as discussed in FSP FIN No. 45-2, its use can be justified under generally accepted accounting principles. Examples of circumstances in which method (*c*) would be appropriate include when the guarantee falls under the guidance of FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities* and when the guarantor has elected to value the guarantee using the fair value option as provided by FASB Statement No. 159. AcSEC believes that the method described in (*b*) is most commonly used in practice, and that the method described in (*c*) is rarely, if ever, used other than when the guarantee falls under the guidance of FASB Statement No. 133 or FASB Statement No. 159.

9.17 In circumstances in which the reduction of risk is recognized upon either expiration or release of the guarantee, the liability is typically measured at the greater of the liability amount as calculated under FASB Statement No. 5 or its initial amount under FIN No. 45 until the guarantee either expires or is released.

9.18 In circumstances in which the reduction of risk is recognized by a systematic and rational amortization method, the liability is typically reduced with an offsetting credit to earnings. Some examples of systematic and rational amortization methods include the following:

- Straight line over the life of the guarantee
- Straight line over the life of the guarantee, with a proportionate reduction of the liability if a portion of the debt is prepaid or the manager is released from the guarantee obligation
- Proportionately as the debt is reduced, if the manager is released from a portion of the guarantee obligation

9.19 As described in paragraphs 9.17 and 9.18, if the manager is released from risk because of changes in the guarantee, such as upon retirement of the debt or if the guarantee is otherwise terminated, the liability should typically be reduced and a corresponding credit to other income or revenue recorded, consistent with the reporting of the amortization of the liability.

9.20 The method for reducing the liability is an accounting policy and should be applied consistently to different guarantees, given similar facts and circumstances. The policy should be disclosed.

9.21 The credit recorded as the liability is reduced may be reported as other income or revenue, as appropriate. The guarantor may either disaggregate the credit on the income statement or aggregate it with management fee revenue.

9.22 In circumstances in which it is probable that the manager has incurred a loss from the contingency, the amount of the loss can be reasonably estimated, and the estimated loss is greater than the remaining liability recorded under FIN No. 45, the manager should recognize the incremental liability pursuant to paragraph 8 of FASB Statement No. 5 by a charge to expense.

Subsequent Measurement of the Asset

9.23 AcSEC observes that paragraph 10 of EITF Issue No. 01-9 provides that "if the consideration consists of a 'free' product or service (for example, a gift certificate from the vendor or a free airline ticket that will be honored by another, unrelated entity), or anything other than cash (including "credits" that the customer can apply against trade amounts owed to the vendor)…the cost of the consideration should be characterized as an expense (as opposed to a reduction of revenue) when recognized in the vendor's income statement." AcSEC considered whether the guidance in EITF Issue No. 01-9 requires amortization of the balance sheet debit as an expense, rather than as contra revenue. AcSEC observed that amortizing the customer acquisition costs as an expense, rather than contra revenue, would result in reporting more revenue over the life of the contract than cash received. In addition, AcSEC believes that although no receivable results from the agreement because payments are contingent, the agreement is, nevertheless, a multiple element arrangement pursuant to EITF Issue No. 00-21. Given the difficulty in categorizing the balance sheet debit, as well as the fact that AcSEC believes it is undesirable to report more revenue over the life of the contract than cash received, AcSEC believes the balance sheet debit should be amortized as a contra to revenue (or as a reduction of other income, if the reduction of the guarantee liability is being recognized as other income).

9.24 The contract acquisition cost asset should be amortized over its estimated useful life. The estimated useful life of the asset to the manager should be based on an analysis of all pertinent factors, in particular the factors listed in paragraph 11 of FASB Statement No. 142.

9.25 Paragraph 12 of FASB Statement No. 142 states, in part, that the method of amortization shall reflect the pattern in which the economic benefits of the intangible asset are consumed or otherwise used up. If that pattern cannot be reliably determined, a straight line amortization method shall be used. AcSEC believes most entities use the straight line amortization method because that pattern best reflects the economic benefits of the asset as it is used up. While other amortization methods may be utilized, AcSEC believes that the amortization expense should not be recorded more slowly than that amount which would be recognized using the straight line method.

9.26 In conformity with paragraph 14 of FASB Statement No. 142, the manager should evaluate the remaining useful life of the contract acquisition cost asset that is being amortized each reporting period to determine whether events and circumstances warrant a revision to the remaining period of amortization. If the estimate of the asset's remaining useful life is changed, the remaining carrying amount of the asset should be amortized prospectively over that revised remaining useful life.

9.27 In conformity with paragraph 15 of FASB Statement No. 142, assets subject to amortization should be reviewed for impairment in conformity with FASB Statement No. 144.

Financial Statement Disclosures

9.28 The manager should provide disclosures required by paragraph 13 of FIN No. 45, in addition to disclosing the nature of the offsetting entry arising from the recognition of the guarantee liability recorded on the balance sheet and its applicable accounting treatment.

Applicability of FASB Interpretation No. 46(R)

9.29 AcSEC considered whether to provide additional guidance on the application of FASB Interpretation No. 46, *Consolidation of Variable Interest Entities* (revised December 2003) (FIN No. 46(R)) to gaming entities that manage and guarantee the debt of other entities undertaking gaming activities. The scope of FIN No. 46 (R) excludes the consolidation of governmental entities, as described in paragraph 4i, as follows:

> i. An enterprise shall not consolidate a governmental organization and shall not consolidate a financing entity established by a governmental organization unless the financing entity (1) is not a governmental organization and (2) is used by the business enterprise in a manner similar to a variable interest entity in an effort to circumvent the provisions of this Interpretation.

In circumstances in which gaming entities manage and guarantee the debt of other entities undertaking gaming activities included in the scope of FIN No. 46(R), if any, gaming entities should consider the applicability of FIN No. 46(R). AcSEC observes that in practice in most, if not all, transactions in which gaming entities manage and guarantee the debt of other entities undertaking gaming activities, the entity receiving management services is a governmental entity. Accordingly, AcSEC concluded that it is unnecessary to include in the guide guidance pertaining to FIN No. 46(R).

Chapter 10—Long-Lived Assets

> ***Applicability:*** *This chapter provides guidance applicable to nongovernmental gaming entities. Governmental gaming entities should refer to chapter 12 of this guide and consider the implications of Governmental Accounting Standards Board pronouncements that conflict with or contradict guidance provided in this chapter.*

Introduction

10.01 Certain operating characteristics of gaming entities and other entities with gaming related activities, as well as the environment in which they operate, create considerations for industry specific financial reporting pertaining to those long-lived assets.

Summary of Selected Accounting Literature

10.02 The primary sources of accounting guidance for impairment of long-lived assets are Financial Accounting Standards Board (FASB) Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*; FASB Statement No. 143, *Accounting for Asset Retirement Obligations*; and related guidance.

Long-Lived Assets to Be Held and Used

10.03 FASB Statement No. 144 addresses financial accounting and reporting for the impairment or disposal of long-lived assets, including intangible assets that are subject to amortization. The statement requires that a long-lived asset (asset group) to be held and used be tested for recoverability whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Such events or changes in circumstances are commonly referred to as *triggering events*.

Triggering Events

10.04 Paragraph 8 of FASB Statement No. 144 provides examples of events or changes in circumstances (triggering events) indicating that a long-lived asset (asset group) carrying amount may not be recoverable. For gaming entities and other entities with gaming related activities, the following are some industry specific examples of events or changes that may cause significant adverse changes in a long-lived asset (asset group) being used:

> Examples of events or changes in the extent or manner of use of a long-lived asset (asset group) include the following:

- Converting a facility in which gaming operations are undertaken from a cruising riverboat to a stationary barge
- Closing or abandoning an entertainment facility within a casino, hotel, and entertainment complex

Examples of events or changes in legal factors that could affect the value of a long-lived asset (asset group), including an adverse action or assessment by a regulator include the following:

- An increase in gaming tax rates
- The legalization of gaming in a nearby location
- A change in regulation significantly increasing the number of gaming licenses in the jurisdiction in which the entity operates
- A change in legislation limiting or prohibiting the type or nature of games allowed
- A change in legislation limiting the amount of time individual players may spend in the gaming operation
- A change in legislation limiting the amount that an individual player may lose in a given time period
- A change in legislation limiting or prohibiting the nature and extent of certain nongaming behavior and activities undertaken by players in the gaming operation, such as smoking cigarettes or drinking alcohol

Examples of events or changes in circumstances that may significantly adversely change the business climate that could affect the value of a long-lived asset (asset group) include the following:

- An increase in competition resulting from changes in legislation or regulations
- An increase in competition from the introduction of competing alternative gaming venues
- An observable decline in travel and tourism resulting from economic, political, social, or other reasons

10.05 The factors and events may also create gradual changes that may not necessarily be triggering events because each separate occurrence of such gradual changes may not indicate that the carrying amount of the asset (asset group) may not be recoverable. Over time, gradual changes may result in changes in circumstances indicating that the carrying amount of the asset (asset group) may not be recoverable. For example, such gradual changes may result in a deterioration of operating results.

10.06 Certain changes in circumstances or events or an aggregation of several factors may have a long-term effect, whereas others may be likely to be temporary. For example, legalization of gaming in a nearby location may have a long-term effect, while the effects of a power outage may be temporary. An entity should consider the extent to which a particular event or change in circumstances affects future periods in determining whether it is a triggering event. In addition, if a particular event or change in circumstances is considered a triggering event, the entity should consider the extent of the effect of such events or changes in circumstances on future periods in estimating future cash flows used to test the recoverability of a long-lived asset (asset group).

Grouping Long-Lived Assets to Be Held and Used and Related Issues

10.07 Paragraphs 10 and 11 of FASB Statement No. 144 discuss the grouping of long-lived assets. Determining the appropriate level of assets to group for gaming entities and other entities with gaming related activities presents unique issues in certain circumstances.

10.08 Gaming activities are conducted in buildings or facilities that also have hotels, restaurants, shops, spas, entertainment facilities, and other related activities. Those separate assets and activities typically are related to and dependent on each other. Although those separate assets and activities may generate positive identifiable cash flows, the primary focus of the overall building or complex is on attracting customers for the gaming activities, and the identifiable cash flows of those separate assets and activities, therefore, may not be largely independent of the cash flows of other assets and liabilities. Accordingly, the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities, for example, may be the combined casino, hotel, and entertainment complex, due to the interdependency of the operations. In such circumstances, such assets should be grouped together for purposes of considering the provisions of FASB Statement No. 144. In circumstances in which identifiable cash flows that are largely independent of the cash flows of other assets and liabilities can be identified, however, long-lived assets should be grouped accordingly.

10.09 In some circumstances, entities may own multiple facilities, such as multiple casino, hotel, and entertainment facilities. For example, an entity may own three casino and hotel facilities in a particular city. Although those three facilities may have certain shared costs, typically, those three facilities would have identifiable cash flows that are largely independent of the cash flows of assets and liabilities of the other two facilities in the same city.

10.10 FASB Statement No. 144, paragraph 9, discusses the useful lives and depreciation of long-lived assets, and paragraph 28 discussed long-lived assets to be abandoned and depreciation estimates.

10.11 In some circumstances, events or changes in circumstances may affect a particular asset within an asset group without resulting in an impairment loss for the asset group.

Although such events or changes in circumstances may not necessarily result in an impairment loss for the asset group, they may nevertheless require accounting recognition In particular, as an example, in circumstances in which a casino commits to a plan to abandon a long-lived asset before the end of its previously estimated useful life, depreciation estimates should be revised in conformity with FASB Statement No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3,* to reflect the use of the asset over its shortened useful life. A long-lived asset that has been temporarily idled should not be accounted for as if abandoned.

10.12 Other events and changes in circumstances may raise issues about the composition of asset groups and related measurement issues. For example, some entities operate a casino and hotel complex and conduct its gaming activities in a casino on a riverboat because legislation prohibits gaming activities on stationary barges. Identifiable cash flows pertaining to any particular asset within the complex are not largely independent of the cash flows of other assets and liabilities within the complex. Because of the interdependency of the operations, the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities is the combined casino and hotel complex, with changes in legislation allowing the entity to operate its gaming activities in a casino on a stationary barge. If the entity moved all the gaming machines, tables, and casino equipment to the barge and kept and converted the riverboat at the dock into an entertainment facility, the entity should consider whether, as a result of converting the riverboat into an entertainment facility, cash flows for the entertainment facility are largely independent of the cash flows of other assets and liabilities in the combined casino and hotel complex. In circumstances where the cash flows for the entertainment facility are largely independent of the cash flows of other assets and liabilities in the combined casino and hotel complex, the entity should consider whether an impairment loss pertaining to the entertainment facility has been incurred. In circumstances in which the cash flows for the entertainment facility are not largely independent of the cash flows of other assets and liabilities in the combined casino, hotel, and entertainment complex, the entity should consider whether an impairment loss pertaining to the casino, hotel, and entertainment complex as a whole has been incurred. Also, the entity should review depreciation estimates and methods pertaining to the entertainment facility, as required by FASB Statement No. 154.

Estimates of Future Cash Flows Used to Test a Long-Lived Asset for Recoverability

10.13 Paragraphs 16 and 18 of FASB Statement No. 144 discuss the estimates of future cash flows used to test the recoverability of a long-lived asset. Accordingly, estimates of future cash flows used to test the recoverability of a long-lived asset (asset group) should be made for the remaining useful life of the asset (asset group) to the entity. In addition, the remaining useful life of an asset group should be based on the remaining useful life of the primary asset of the group.

10.14 For gaming entities and other entities with gaming related activities, the primary asset typically may be the facility in which gaming activities are undertaken, if housed separately. If the facility in which gaming activities are conducted in the same physical facility as other activities, such as hotels, restaurants, shops, spas, entertainment facilities, and other related activities, the primary asset typically may be the overall building in which those activities are housed. At times, the gaming activities may be so integral to the purpose of the entity and its overall objectives that the other assets in the group typically would not have been acquired by the entity without the facility housing the gaming activities.[1] Accordingly, even in circumstances in which the (*a*) level of investment required to replace assets other than the facility housing the gaming activities or (*b*) remaining useful life of assets other than the facility housing the gaming activities might otherwise point toward those other assets as being the primary asset, the facility housing the gaming activities typically may be the primary asset.

10.15 Circumstances may exist, however, in which the facility housing the gaming activities is not the primary asset. For example, a cruise ship may include a relatively small casino area. In these circumstances, the entire cruise ship, rather than the casino area, typically would be the primary asset. As another example, a racetrack facility may include a separate facility that includes slot machines. In such circumstances, the entire race track facility may be the primary asset.

10.16 As noted in paragraph 18 of FASB Statement No. 144, the remaining useful life of an asset group should be based on the remaining useful life of the primary asset of the group. In circumstances in which any assets will be included within the asset group at the date at which the primary asset will be disposed of, including but not limited to circumstances in which the primary asset is not the asset of the group with the longest remaining useful life, estimates of future cash flows for the asset group should assume the sale of the balance of the group at the expected disposal date of the primary asset. For gaming entities and other entities with gaming related activities, the cash flow estimation period, therefore, may differ from the remaining depreciable life of the gaming facility for various reasons.[2] Also, it may be difficult to reliably estimate cash flows for the entire

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1 Footnote 10 of Financial Accounting Standards Board (FASB) Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* notes that the primary asset group cannot be land or an intangible asset not being amortized. Accordingly, nonamortizing licenses, goodwill, or other intangible assets, if any, as well as land, if any, on which the casino facility is built should not be considered the primary asset.

2 As stated in paragraph 9 of FASB Statement No. 144, when a long-lived asset (asset group) is tested for recoverability, it also may be necessary to review depreciation estimates and method as required by FASB Statement No. 154, *Accounting Changes and Error Corrections—a replacement of APB Opinion No. 20 and FASB Statement No. 3*, or the amortization period as required by FASB Statement No. 142, *Goodwill and Other Intangible Assets*.

period of the facility's remaining useful life due to the difficulty in forecasting future revenue growth and capital expenditures over a prolonged period. In those circumstances, as suggested in paragraph 17 of FASB Statement No. 144, a probability weighted approach may be useful in considering the likelihood of various possible outcomes. Also, pursuant to paragraph 17 of FASB Statement No. 144, to the extent that the potential sale of the long-lived asset (asset group) exists, then such a sale should be considered in determining the probability weighted cash flows used to evaluate and measure for impairment.

10.17 Paragraphs 19 and 21 of FASB Statement No. 144 discusses estimates of future cash flows and the existing service potential of the assets (assets group), including capital expenditures to maintain the service potential of the assets (assets group).

10.18 Some examples of a gaming entity's cash flows necessary to maintain the existing service potential of the asset (asset group) includes slot machine replacements, carpet replacement, general refurbishment of common areas, and information systems upgrades or replacements.

10.19 Examples of cash flows necessary to maintain the existing service potential of the group for gaming entities with hotel amenities include those incurred to improve the hotel and its rooms, including refurbishments and remodels to maintain the existing service potential of the asset group.

Asset Retirement Obligations[3]

10.20 Some gaming entities and other entities with gaming related activities incur legal obligations associated with the retirement of tangible long-lived assets that result from the acquisition, construction, or development or the normal operation of the long-lived asset, or both. Such obligations should be reported in conformity with FASB Statement No. 143. Some examples of those obligations are as follows:

- A casino builds a moat for purposes of holding a barge functioning as a gaming facility, with the legal obligation to refill the moat with land if the facility ceases to be used for gaming activities.
- A casino enters into a land lease and builds a facility on that land, with the legal obligation to remove the building at the end of the lease term.

[3] Not all obligations are considered asset retirement obligations, and readers should refer to the guidance found in FASB Statement No. 143, paragraph 17.

Chapter 11—Other Accounting Topics

Applicability: *This chapter provides guidance applicable to non-governmental gaming entities. Governmental gaming entities should refer to chapter 12 of this guide and consider the implications of Governmental Accounting Standards Board pronouncements that conflict with or contradict guidance provided in this chapter.*

Intangible Assets Acquired in a Business Combination

11.01 Some gaming entities operate in limited license jurisdictions, and the license itself may, therefore, have value. Even though licenses are typically not legally separable, they can meet the contractual or legal rights requirements of Financial Accounting Standards Board (FASB) Statement No. 142, *Goodwill and Other Intangible Assets*, for recognition as an asset apart from goodwill. The fair value of a license is often determined based on an "excess earnings" approach. The other important issue is the determination of whether the license has finite lives or is indefinite lived. A detailed review of the criteria in FASB Statement No. 142[1] is required; however, gaming entities have historically determined that such licenses are indefinite lived, primarily because renewal is expected to occur without a substantial cost and without material modification to the terms and conditions of the license. Also see chapter 7 of this guide.

11.02 Trademarks can be a significant intangible asset in an acquisition of a gaming entity. Such assets are generally valued using a methodology that computes the hypothetical charge under a license arrangement if the gaming entity did not have rights to the trademark, but had to rent, or license, those identical rights.

11.03 The valuation of customer relationship intangible assets will generally be determined using a discounted cash flow method based on the cash flows specifically related to the subject customers. One key assumption is the attrition rate because customer relationship intangible assets are only recognized for current customers; it can be assumed that they will not be customers forever. Additional assumptions that are important include the relevant costs/profit margins assigned to these customers, which is potentially different from the cost/profit margins of the gaming entity as a whole. Similarly, a relevant discount rate must be selected.

11.04 Evidence of continuing involvement with established customer relationships

[1] For additional guidance, refer to Financial Accounting Standards Board (FASB) Staff Position (FSP) FAS 142-3, *Determination of the Useful Life of Intangible Assets*; effective for financial statements issued for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. Earlier application is not permitted.

which could potentially be recognizable in an acquisition of a gaming entity include the following:

- An existing point-loyalty program with a database of known customers
- Situations in which the gaming entity has regular contact with the customer, such as the case with premium gaming customers
- The existence of advance hotel reservations

Jackpot Insurance

Background

11.05 Some gaming entities insure against risks of gaming losses that they will be required to pay out on certain jackpots (referred to hereafter as *jackpot insurance*). In a typical jackpot insurance arrangement, the gaming entity pays a premium to a bona fide insurance company in exchange for the insurer reimbursing the gaming entity if a patron wins a specified jackpot. While jackpot insurance may be purchased for any game with a large payout, such insurance is most commonly purchased for games such as keno, bingo, and some slot machines jackpots.[2]

11.06 Jackpot insurance typically is priced based on the payout percentage for the game, as set by the gaming entity, with a profit built in for the insurer. Jackpot insurance, therefore, effectively transfers the gaming risk for the insured jackpot from the gaming entity to the insurer. Jackpot insurance does not, however, legally replace the gaming entity with the insurer as the obligated party in circumstances in which a patron wins a jackpot. Over periods of extended play, having jackpot insurance results in the gaming entity earning slightly less with respect to the insured game than the gaming entity would earn without the insurance, but jackpot insurance significantly reduces the gaming entity's risk that it will incur a relatively large cash outflow in any particular time period. Jackpot insurance, therefore, is a means for the gaming entity to manage the cash flows of the insured activities. The excess of insurance premiums over the probable jackpot payout represents the cost of managing those cash flows.

11.07 Premiums for jackpot insurance and proceeds paid by insurers are typically not included in the computation of taxable gaming revenue in most, if not all, jurisdictions.

Characteristics of Jackpot Insurance Policies

11.08 The products offered are short duration insurance contracts, and the gaming entity

[2] Promotional payouts not associated with gaming activities are not included in the discussion in this chapter.

is compensated only if an identifiable insurable event occurs (that is, a jackpot is won by a patron), and the gaming entity incurs a liability. Payments are not made by the insurance company based on changes in a variable. Jackpot insurance may be considered analogous to payment of death benefits on a term life insurance contract, or payment of benefits on an annually renewable property and casualty contract after a theft or fire. It must be emphasized that in order to be considered insurance for accounting purposes, significant gaming risk is transferred from the gaming entity to the insurer under jackpot insurance contracts.

11.09 Jackpot insurance is not typically offered with other insurance or combined with embedded derivative instruments.

11.10 Typically, jackpot insurance contains no financing or loan arrangements. There is no guarantee that a jackpot will be paid during the limited term of the insurance contract, so the insurer is not financing the payment of the jackpot for the gaming entity. Just the opposite—the insurer has computed the odds of a large jackpot being won and would prefer that the large payout not be paid during the term of the contract.

Accounting for Jackpot Insurance

11.11 Games covered by jackpot insurance are to be accounted for in the same manner as games not covered by insurance. Wins are computed in the same manner, with payouts made on winning wagers that are insured being accounted for as a reduction of gaming win, and will be reflected as a component of gross gaming revenue.

11.12 Gaming entities report the jackpot insurance premiums as a component of net gaming revenue. To the extent that jackpot insurance premiums are prepaid, they are deferred and amortized over the remaining contract period in proportion to the amount of insurance protection provided. Recoveries under jackpot insurance policies are also reported as a component of net gaming revenue.

11.13 Receivables arising from jackpot insurance are reported separately as assets and are not offset against related jackpot liabilities.

Gaming Chips and Tokens Liabilities

11.14 The purchase cost of chips and tokens are either recorded as an asset and depreciated over their useful lives or, if not material, expensed immediately.

11.15 Gaming chips are accounted for from the time the casino receives them even though the casino may not issue them immediately, but, instead, hold them in reserve. When a customer exchanges cash for gaming chips, the casino has a liability as long as those chips are not redeemed or won by the house. That liability is established by determining the difference between the total chips placed in service and the actual inventory of chips in custody or under the control of the casino. The chip liability is adjusted periodically to reflect an estimate of chips that will never be redeemed (for example, chips that have been lost, taken as souvenirs, and so on).

11.16 The face value of chips and tokens that have been placed into service is part of the cash on hand balance, with a contra account recorded within the gaming entity's cash balance.

11.17 The liability for chips and tokens that are not under the control of the gaming entity (also known as the *chip/token float*), is periodically reviewed and adjusted for chips and tokens when redemption by the customer has been deemed remote. This concept is commonly referred to as *breakage*, as described in Emerging Issues Task Force (EITF) Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)." The offsetting entry for the reduction in the chips and tokens liability is recorded as a component of net gaming revenue.[3]

11.18 Gaming entities may also periodically determine that certain denominations or themes of gaming chips or tokens will be permanently discontinued. Gaming regulations typically require that public notice (for example, legal notice in newspapers) be given for an extended period of time subsequent to the decision to discontinue the use of specific chips or tokens. Once the mandated notice period expires, the gaming entity is legally released from the redemption requirement, a liability no longer exists, and net gaming revenue is recognized for the dollar amount of chips and tokens that were not redeemed.

Race Track Fees

Background

11.19 Some gaming entities, as a component of its operations typically called the *race book,* receive simulcasts of horse and other races from various racing tracks (referred to hereafter as the *track entity*) and accept betting on the simulcast races. The gaming entity typically forwards the bets accepted on the simulcasts to the track entity, and the bets are commingled with the bets taken at the track (and at other gaming entities) as part of the pari-mutuel activity. Although rare, some gaming entities handle the bets themselves and form pari-mutuel pools from among the bets placed.

11.20 Gaming entities that take pari-mutuel bets on simulcast races typically receive a

[3] Escheat laws need to be considered when determining the appropriate accounting for breakage. The guidance in this paragraph assumes that breakage resulting from unredeemed chips and tokens is not considered abandoned property in the gaming entity's legal jurisdiction. In addition, registrants should consider the guidance discussed in a December 2005 speech made by the staff of the Securities and Exchange Commission discussing the staff's view on the acceptable approaches to recognizing breakage. Refer to the following link to access this speech from the SEC's Web site, www.sec.gov.

commission from the track entity in exchange for bringing wagers into the track entity's pari-mutuel pool. The commission percentage range depends on the racetrack and type of wager accepted.

11.21 Gaming entities that take pari-mutuel bets on races typically pay a fee to the track entity through a third party intermediary (such fees are commonly referred to hereafter as *track fees*). The track fees paid by the gaming entity typically are a fixed dollar fee per day, but can also be a percentage of wagers (if the State Gaming Commission has given its approval for the track entity to share in casino revenues). For gaming entities paying track fees as a percentage of wagers, the fee range is dependent upon the racetrack and type of wager. In substance, the track fee paid by the gaming entity is effectively a reduction, or discount, of the commission it receives. The transaction typically is structured in this manner in circumstances in which the track entity is required by regulation to remit to the gaming entity a specific amount, typically expressed as a percentage of wagers brought into the track entity's pari-mutuel pool. The gaming entity then pays an amount to the track entity to adjust the net payment to a market driven amount.

Accounting for Race Track Fees

11.22 Track fees incurred by the gaming entity are generally netted against commissions received from the track entity, regardless of whether such fees are calculated as a flat fee, a percentage of wagers, or a percentage of wagers with a maximum amount, and regardless of whether the track fees are paid through a third party intermediary. This treatment is consistent with the guidance for similar activities prescribed in EITF Issue No. 01-9, *Accounting for Consideration Given by a Vendor to a Customer*.

11.23 The treatment of race track fees as described in this chapter is consistent with the guidance in this guide pertaining to third party management agreements in circumstances in which the gaming entity makes upfront payments to the managed entity and then amortizes those upfront payments against management fee revenue over the life of the agreement.

Segment Reporting

11.24 FASB Statement No. 131, *Disclosures about Segments of an Enterprise and Related Information*, established standards for the way that public business enterprises report information about operating segments in annual financial statements. It also establishes standards for related disclosures about products and services, geographic areas, and major customers.

11.25 Gaming entities may include hotels, restaurants, parking garages, entertainment venues, retail shopping, and other activities. They may also have operations in various geographic areas.

11.26 Operations of a nonpublic business enterprise with a casino property that also includes a hotel, restaurant, parking garage, and the like are generally considered as one industry segment. The operating revenues of each are generally separately determinable. However, because of the natural interdependence of such operations, an allocation of costs among them to determine relative contributions to income (operating profit) would be largely arbitrary and, therefore, not meaningful.

11.27 However, nonpublic casino business enterprises operating in various legal jurisdictions may have geographic segments and should, therefore, report such information.

Uniforms and Other Long-Lived Assets

11.28 A gaming entity's assets include their stock of uniforms, linens, china, glassware, and silver. Varieties of methods are used to account for these assets and their consumption. Some gaming entities aggregate the cost of these items and depreciate the items over their estimated useful lives. Other gaming entities capitalize the base stock of these items and then expense the costs of items subsequently bought and placed in service. Under this method, the initial cost may be amortized to a pre-established net value or remain at full cost. Other gaming entities capitalize the cost of these items and expense the items when they are lost or damaged. However, if not material, some entities might expense these costs immediately. Generally, policies pertaining to the accounting method used are disclosed in accordance with Accounting Principles Board (APB) Opinion No. 22, *Disclosure of Accounting Policies*.

Deferred Income Taxes for Casinos

11.29 Financial statement reporting for casinos differs from income tax reporting, resulting in deferred income taxes when (*a*) recognition of casino receivables is used for financial statements and the "when collected" method is used for income tax reporting, (*b*) costs are deferred for financial statements and are charged to expense for income tax reporting, and (*c*) progressive slot jackpots are accrued based on meter readings for financial statements and are charged against revenue when paid for income tax reporting.

Chapter 12—Governmental Gaming Entities

Applicability: *Tribal gaming, state lotteries and other governmental gaming entities apply governmental accounting and financial reporting practices and should follow the guidance in this chapter. The guidance in this chapter does* <u>*not*</u> *apply to nongovernmental gaming entities.*

Gaming conducted by Native American tribes is reported in enterprise funds or as component units within their basic financial statements. Lotteries are typically conducted by state governments, and are reported as enterprise funds or component units within the state's Comprehensive Annual Financial Report (CAFR).

Unless it conflicts with or contradicts GASB pronouncements, governmental gaming entities should also consider the guidance in chapters 4 through 11 and appendixes A through D, and F of this guide as other accounting literature set forth in the AICPA's Statement on Auditing Standards (SAS) No. 69, The Meaning of Presenting Fairly in Conformity With Generally Accepted Accounting Principles (AICPA, Professional Standards, vol. 1, AU section 411.13)

Background

12.01 This chapter summarizes some areas of generally accepted accounting principles (GAAP) significant to governmental gaming entities. The AICPA Audit and Accounting Guide *State and Local Governments* includes governmental gaming entities in its scope and contains accounting and financial reporting guidance and other matters unique to governmental entities that should also be considered by governmental gaming entities.

Summary of Selected Accounting Literature

12.02 The primary sources of guidance in this chapter applicable to governmental entities are Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity;* GASB Statement No. 34, *Basic Financial Statements—and Managements Discussion and Analysis—State and Local Governments;* GASB Statement No. 37, *Basic Financial Statements—and Managements Discussion and Analysis—State and Local Governments: Omnibus;* GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting;* and GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.*

GASB Statement No. 20 Election

12.03 Paragraph 6 of GASB Statement No. 20, as amended, requires that proprietary funds[1] apply all applicable GASB pronouncements as well as FASB statements and interpretations, Accounting Principles Board opinions, and Accounting Research Bulletins issued on or before November 30, 1989, that do not conflict with or contradict the GASB pronouncements. Furthermore, paragraph 7, as amended, of GASB Statement No. 20 provides that governmental enterprise funds and activities reported using enterprise fund accounting and financial reporting *may* apply all FASB statements and interpretations issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements (collectively, *post-1989 FASB pronouncements*). Governmental gaming entities that choose to apply post-1989 FASB pronouncements must apply them on an “all or none” basis and may not select which pronouncements to apply. GASB Statement No. 34, paragraphs 93–95, indefinitely extends the provisions of GASB Statement No. 20.

12.04 The election under GASB Statement No. 20 regarding whether or not to apply post-1989 FASB pronouncements may impact accounting and financial reporting by governmental gaming entities. Those electing not to implement post-1989 FASB pronouncements also do not implement revisions to pre-1989 FASB pronouncements made by post-1989 FASB pronouncements. As a result, GAAP applicable to such entities may include pronouncements that have been superseded for entities that follow the FASB model and governmental gaming entities that have elected to implement post-1989 FASB pronouncements.[2]

Basic Financial Statements and Required Supplementary Information

12.05 Governmental gaming entities are included in the financial statements of the sponsoring government, typically as business-type activities. Stand alone financial statements of a governmental gaming entity may be important to management and the sponsoring government and its citizens. Stand alone financial statements are typically required by gaming regulators and may be required by creditors when proceeds of debt are secured by the revenues or resources of the governmental gaming entity.

12.06 Accounting and financial reporting for separately issued GAAP-based financial statements for one or more individual funds are not currently addressed by GASB

[1] Proprietary funds are a “fund type” in the governmental accounting model, which includes enterprise funds and internal service funds. Proprietary funds are addressed in chapter 2 of the AICPA Audit and Accounting Guide *State and Local Governments* and in section 1300 of the Governmental Accounting Standards Board (GASB) codification.

[2] Readers should refer directly to the applicable authoritative pronouncements and may consider referring to a non-authoritative listing on the GASB Web site (www.gasb.org) providing guidance on whether post-1989 FASB pronouncements conflict with or contradict GASB pronouncements.

standards.[3] However, for governmental gaming entities that are individual funds or groups of funds, auditors and preparers of financial statements should consider long established practice dictating that those presentations should apply all relevant GAAP accounting standards and present all relevant financial statements, note disclosures, management discussion and analysis (MD&A) topics, and other required supplementary information (RSI).

12.07 All changes in net assets/equity of governmental gaming entities, including distributions to and contributions from the sponsoring government, are reported in the statement of revenues, expenses, and changes in net assets/equity. Because the statement of revenues, expenses, and changes in net assets/equity is all inclusive, the governmental financial reporting model does not include a separate statement of changes in stockholders equity as a basic financial statement.

Resource Flows Between Governmental Gaming Entities and Sponsoring Governments

12.08 Some examples of resource flows that commonly occur between governmental gaming entities and their sponsoring governments are as follows:

- Infusion of financial resources to the governmental gaming entity to begin or expand operations
- Contribution of capital assets to/from the primary government (capital contributions)
- Return of financial resources (gaming profits) to the sponsoring government
- Taxes assessed on the governmental gaming entity by the sponsoring government
- Fees assessed by the sponsoring government on the governmental gaming entity
- Reimbursement of amounts paid for goods/services provided by/to the governmental gaming entity to/from the sponsoring government

12.09 Resource flows, other than capital contributions and reimbursements, are treated differently on the statement of revenues, expenses, and changes in equity, depending on whether the gaming entity is a part of the primary government (enterprise fund or blended component unit) or whether it is a discretely presented component unit. Gaming entities that are part of the primary government report such resource flows as transfers,[4] while

[3] Accordingly, GASB did not clear provisions set forth in this paragraph.

[4] See GASB Statement No. 34, paragraph 112 for additional information. The nature of such transfers may be provided on the face of the statement or in the notes to the financial statements.

gaming entities that are discretely presented component units report such resource flows as nonoperating revenues and expenses.

12.10 Capital contributions (capital assets contributed to/from the sponsoring government) are reported, at the book value of the assets contributed, below nonoperating revenues and expenses on the statement of revenues, expenses, and changes in equity as "capital contributions." Reimbursement transactions settle assets and liabilities that were created when the original transaction occurred and have no further financial statement impact.

Allocation of Assets and Liabilities Within the Financial Reporting Entity

12.11 Long-term liabilities directly related to and expected to be paid from governmental gaming entities that are proprietary funds of the sponsoring government are reported as specific fund liabilities, even though the full faith and credit of the governmental unit may be pledged as further assurance that the liabilities will be paid.[5] Except for such fund liabilities, governments generally determine how assets and liabilities are allocated within the financial reporting entity. To enhance the understandability of financial statements, the notes to the financial statements may disclose relationships impacting the operations of the governmental gaming entity that are not otherwise apparent. For example, a tribal casino may have the beneficial use of land, equipment, and facilities that are reported in a different fund or activity without charge. Similarly, a gaming entity may benefit from centralized administrative activities (for example, finance, accounting, human resources, etc.) of the government at no cost or at a reduced rate.

Impairment of Capital Assets

12.12 GASB Statement No. 42 specifies accounting for capital asset impairments and insurance recoveries by governmental gaming entities. Impairment is defined by GASB Statement No. 42 as "a significant, unexpected decline in the service utility of a capital asset." GASB Statement No. 42 provides that "the service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization, which is the portion of the usable capacity currently being used." GASB's service utility approach differs significantly from the cash flow based methodology for determining impairment under FASB standards.

12.13 GASB Statement No. 42 requires that an impairment test be performed if events or changes in circumstances that are prominent and that denote the presence of indicators of impairment exist. GASB Statement No. 42, paragraph 9 lists the following as common indicators of impairment:

[5] See paragraph 42 of National Council on Governmental Accounting Statement No. 1, *Governmental Accounting and Financial Reporting Principles.*

- Physical damage
- Enactment or approval of laws or regulations or other changes in environmental factors
- Technological development or evidence of obsolescence
- Changes in the manner or expected duration of use of a capital asset
- Construction stoppage, such as a stoppage due to lack of funding

12.14 For governmental gaming entities, the following are factors that may be indicators of impairment (assuming such events differ from the gaming entity's expectations at the time the asset was acquired or built):

- Change in legislation limiting or prohibiting the type or nature of games allowed, such as prohibiting a certain type of game (this may be an indicator of impairment of specific games or machines rather than the gaming entity as a whole)
- Change in legislation limiting the amount of time the gaming entity is allowed to be open

12.15 Examples of changes in the manner or expected duration of use of a capital asset that may be indicators of impairment for governmental gaming entities include the following:

- Relocation of gaming operations from a cruising riverboat to a land based casino.
- Abandonment of an entertainment facility within a casino.

12.16 The following circumstances are not indicators of impairment because, though they may result in reduced profits or cash flows, they do not suggest that the service utility of the capital asset has significantly declined:

- Increase in gaming tax rates or revenue sharing obligations to states
- Legalization of gaming in a nearby location
- Change in regulation significantly increasing the number of gaming licenses in the entity's market
- Increased competition resulting from changes in legislation or regulations, for example, permitting other entities to conduct a certain type of game that would result in other entities having competitive advantages.
- Increased competition from the introduction of competing alternative gaming venues, such as racinos or other casinos, in a nearby location

- Change in legislation 1) limiting the amount of time individual players may spend in the gaming entity, 2) limiting the amount that an individual player may lose in a given time period, or 3) limiting or prohibiting the nature and extent of certain nongaming behavior and activities undertaken by players in the gaming entity, such as smoking cigarettes or drinking alcohol
- An observable decline in travel and tourism resulting from economic, political, social, or other reasons

Segment Reporting

12.17 Segment reporting applicable to governmental entities specified by GASB Statement No. 34 is designed to facilitate reporting compliance with covenants related to debt backed by pledged revenue streams of enterprise funds. Governmental gaming entities frequently have such pledged revenue streams. Segment reporting is required when the pledged revenue stream is narrower than the activity of the fund. For example, segment reporting would be required in the stand-alone financial statements of governmental gaming entities and the basic financial statements of the sponsoring governmental entity when the gaming revenues are pledged, but the fund also includes other revenues that are not pledged.

Chapter 13—General Auditing Considerations - omitted

Chapter 14—Management Control Objectives - omitted

Chapter 15—Consideration of Internal Control - omitted

Chapter 16—Analytical Procedures - omitted

Chapter 17—Specific Auditing Considerations - omitted

Appendix A—Illustrative Financial Statements

A.1 This appendix provides illustrative financial statements of a nongovernmental hotel-casino [fn 1] and a governmental hotel-casino. These illustrative financial statements are not intended to establish requirements for reporting. In addition, the amounts shown are not intended to indicate any customary relationship among accounts. Other gaming entities should utilize these illustrative financial statements for the areas relevant in their circumstances.

A.2 The notes to the financial statements indicate the unique or significant, or both, subject matter often associated with casinos and generally disclosed by casinos, but such disclosures should be modified to suit individual circumstances as well as materiality considerations. These illustrative financial statements do not include all disclosures and presentation items promulgated, nor do they represent minimum standards or requirements. Preparers and auditors of Securities and Exchange Commission (SEC)-registrant financial statements should be aware that there may be certain disclosures required to be made in addition to those required by generally accepted accounting principles. Those additional requirements are not presented in these illustrative financial statements because they are not otherwise required by generally accepted accounting principles. In addition to the illustrative notes that are presented, the notes to financial statements of a casino should include any other appropriate disclosures required by generally accepted accounting principles, including any disclosures discussed throughout other chapters in this guide which may not be illustrated here. Such disclosures might include, among other items, information concerning related party transactions, subsequent events, pension plans, postretirement benefits other than pensions, postemployment benefits, income taxes, share based payment transactions, lease commitments, extraordinary items, accounting changes, off-balance-sheet risks, concentrations of credit risk, derivatives, the fair value of financial instruments, and other matters that are not unique to casinos.

A.3 Illustrative financial statements and footnotes of a **nongovernmental gaming entity** directly follow the Independent Auditor's Report.

A.4

(INDEPENDENT AUDITOR'S REPORT AND GUIDANCE TO BE SUBSEQUENTLY ADDED.)

[fn 1] This guide does not discuss accounting and auditing for the hotel industry. The inclusion of the hotel in the sample financial statements is for illustrative purposes only.

A.5

ABC Casinos, Inc.

Balance Sheets

Assets	December 31 20X7	December 31 20X6
Current assets		
Cash and cash equivalents	$5,678,300	$3,787,100
Accounts receivable, less allowance for uncollectible accounts of $500,000 and $470,000	1,800,100	1,695,200
Other current assets	240,700	229,100
Total current assets	7,719,100	5,711,400
Property and equipment, at cost		
Land	2,201,100	2,201,100
Buildings	27,602,300	27,602,300
Furniture and equipment	9,581,100	8,995,200
Total	39,384,500	38,798,600
Less accumulated depreciation	(9,000,600)	(7,100,985)
Net property and equipment	30,383,900	31,697,615
Other assets and deferred charges, net	1,300,000	1,200,000
Total assets	$39,403,000	$38,609,015
Liabilities and Stockholders' Equity		
Current liabilities		
Current portion of long-term debt	$ 1,000,000	$ 700,000
Accounts payable	928,600	839,200
Deferred income taxes	450,075	375,000
Income taxes payable	150,000	161,000
Other	344,400	207,600
Total current liabilities	2,873,075	2,282,800
Long-term debt, less current portion	15,800,000	16,800,000
Deferred income taxes	618,125	501,000
Total liabilities	19,291,200	19,583,800
Stockholders' equity		
Common stock ($1 par value 1,000,000 shares authorized, issued, and outstanding)	1,000,000	1,000,000
Capital in excess of par value	6,495,800	6,495,800
Retained earnings	12,616,000	11,529,415

Total stockholders' equity	20,111,800	19,025,215
Total liabilities and stockholders' equity	$39,403,000	$ 38,609,015

The accompanying notes are an integral part of the financial statements.

A.6

ABC Casinos, Inc.

Statements of Income and Retained Earnings

	Year ended December 31	
	20X7	*20X6*
Revenue		
Gaming	$ 13,802,300	$ 12,532,100
Rooms	3,100,600	2,827,200
Food and beverage	2,100,300	1,740,200
Other	1,000,000	900,000
	20,003,200	17,999,500
Less: Promotional allowances	(2,109,400)	(1,858,400`
Net Revenues	17,893,800	16,141,100
Costs and expenses		
Gaming	4,012,100	3,717,600
Rooms	1,800,000	1,600,000
Food and beverage	1,500,000	1,200,000
Other	400,000	300,000
Selling, general, and administrative	3,021,900	2,707,700
Depreciation and amortization	2,602,715	2,597,431
Total operating costs and expenses	13,336,715	12,122,731
Operating income	4,557,085	4,018,369
Interest expense	(2,050,300)	(1,935,300)
Income before income taxes	2,506,785	2,083,069
Less provision for income taxes	(970,200)	(818,000)
Net income	1,536,585	1,265,069
Retained earnings, January 1	11,529,415	10,714,346
Dividends ($.45 per share in each year)	(450,000)	(450,000)
Retained earnings, December 31	$ 12,616,000	$ 11,529,415

The accompanying notes are an integral part of the financial statements.

A.7

ABC Casinos, Inc.

Statements of Cash Flows

	Years ended December 31	
	20X7	*20X6*
Cash flows from operating activities:		
Net income	$ 1,536,585	$ 1,265,069
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,602,715	2,597,431
Provisions for losses on accounts receivable	30,000	20,000
Deferred income taxes	192,200	205,500
Change in noncash assets and liabilities:		
Accounts receivable	(134,900)	(134,400)
Other assets	(111,600)	27,500
Accounts payable	89,400	38,500
Income taxes payable	(11,000)	(18,300)
Other liabilities	136,800	74,200
Net cash provided by operating activities	4,330,200	4,075,500
Cash flows from investing activities:		
Proceeds from sale of furniture and equipment	106,200	437,300
Payments for purchases of furniture and equipment	(1,395,200)	(435,200)
Net cash provided by (used in) investing activities	(1,289,000)	2,100
Cash flows from financing activities:		
Repayment of long-term debt	(700,000)	(1,000,000)
Dividends	(450,000)	(450,000)
Net cash used in financing activities	(1,150,000)	(1,450,000)
Net increase in cash and cash equivalents	1,891,200	2,627,600
Cash and cash equivalents at beginning of year	3,787,100	1,159,500
Cash and cash equivalents at end of year	$ 5,678,300	$ 3,787,100
Supplemental disclosure of cash flow data:		

Cash paid during the years for:		
Interest (net of amounts capitalized)	$ 2,000,000	$ 1,800,000
Income taxes	$789,000	$ 634,300

The accompanying notes are an integral part of the financial statements.

A.8

ABC Casinos, Inc.

NOTES TO FINANCIAL STATEMENTS

1. *Nature of Operations*

ABC Casinos, Inc. (the Company) offers gaming, lodging, and restaurant services to its customers through the ownership and/or operation of casino-hotel resorts in Las Vegas, Nevada and Tunica, Mississippi. The Company earns a portion of its revenue from the management of casinos for other entities. The major source of the company's revenues is derived from gaming operations. The company is subject to regulation and taxation by the states in which it operates, generally managed through state agencies specifically established to control the conduct of gaming activities in that state. The company is subject to certain other local and federal regulation as well.

2. *Summary of Significant Accounting Policies*

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for the Company include the allowance for uncollectible accounts receivable; useful lives assigned to property, plant, and equipment; and loyalty program costs.

Cash equivalents. The company considers all highly liquid debt instruments purchased with a maturity of three months or less when purchased to be cash equivalents.

Management fee revenue. Classified within "other revenue" in the accompanying statement of income.

Revenue Recognition and Promotional Allowances. Gaming revenue is (*a*) the win from gaming activities, which is the difference between gaming wins and losses, less sales incentives and other adjustments and (*b*) revenue from gaming related activities such as poker, pari-mutuel wagering, and tournaments. Jackpots, other than the incremental amount of progressive jackpots, are recognized at the time they are won by customers. The Company accrues the incremental amount of progressive jackpots as the progressive machine is played, and the progressive jackpot amount increases, with a corresponding reduction of gaming revenue. The retail value of accommodations, food and beverage, and other services furnished to hotel-casino guests without charge is included in gross revenue and then deducted as promotional allowances.

Participation and third party license arrangements. The Company leases some of its slot machines from gaming equipment manufacturers under participation arrangements, whereby the gaming manufacturer receives a percentage of the handle or net win associated with the leased machine. The Company also pays third party license fees for proprietary games. Fees paid under participation arrangements and third party license arrangements are recorded as a gaming department expense.

Gaming Taxes. In certain states in which the company operates, gaming taxes are based on graduated rates. The company records gaming tax expense at the company's estimated effective gaming tax rate for the year, considering estimated taxable gaming revenue and the applicable rates. Such estimates are adjusted each interim period. If gaming tax rates change during the year, such changes are applied prospectively in the determination of gaming tax expense in future interim periods.

Loyalty programs. The company provides a players club (the Club) for its casino customers. Members of the Club earn points based on gaming activity, and such points are redeemable for cash, free play, or complimentary goods and services such as rooms, food, beverage, etc. Club members may also earn special coupons or awards as determined during marketing promotions. Because redemption of points does not displace a significant number of paying customers and the value of the awards is not significant compared to the original revenue transaction, the company records revenue for the original transaction and a liability for the value of points earned by Club members. The value of the points is determined by referencing the cash value of points expected to be redeemed for cash or free play and the incremental (departmental) cost of points expected to be redeemed for complimentary goods or services. The liability is reduced by points not expected to be redeemed (breakage). The cost of points redeemed for cash is recorded as a reduction of gaming revenue, and the cost of points redeemed for complimentary goods or services is recorded as an operating expense of the gaming department.

Property and equipment. Depreciation and amortization of property and equipment are computed using the straight-line method over the estimated useful lives of the related assets as follows:

Land improvements	30–40 years
Buildings	40 years
Furniture and equipment	3–7 years

Leasehold improvements are amortized over the life of the related asset or the life of the lease, whichever is shorter.

Long-lived assets. Long-lived assets to be held and used are tested for recoverability whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Certain long-lived assets to be disposed of by sale are reported at the lower of carrying amount or fair value less cost to sell.

Investment Securities. Realized gains and losses are included in other income or expense. The cost of securities sold is based on the specific identification method.

Other assets and deferred charges, net. Other assets and deferred charges, net at December 31, 20X7 and 20X6 includes $400,000 and $500,000, respectively, of management contract acquisition costs in connection with the management of gaming operations for third parties. Such costs are being amortized over the term of the related management agreement.

Advertising expenses. Advertising costs are expensed as incurred. Selling, general, and administrative expenses included advertising costs of $650,000 and $725,000 for the fiscal years ended December 31, 20X7 and 20X6, respectively.

3. *Accounts Receivable*

Accounts receivable comprise the following:

	Gaming	Other	Total
20X7			
Accounts receivable	$ 2,050,100	$ 250,000	$ 2,300,100
Less allowance for doubtful accounts	(440,000)	(60,000)	(500,000)
Net	$ 1,610,100	$ 190,000	$ 1,800,100
20X6			
Accounts receivable	$ 1,994,200	$ 171,000	$ 2,165,200
Less allowance for doubtful accounts	(431,000)	(39,000)	(470,000)
Net	$ 1,563,200	$ 132,000	$ 1,695,200

Receivables consist primarily of large groups of smaller-balance homogeneous accounts that are collectively evaluated for impairment.

4. *Promotional Allowances*

The retail value of rooms, food, and beverages furnished to guests without charge is included in gross revenue and then deducted as promotional allowances.

The following table includes the amount of promotional allowances by operating area:

	20X7	*20X6*
Rooms	$1,000,000	$900,000
Food and beverage	800,000	600,500
Other	309,400	357,900
Total	$2,109,400	$1,858,400

5. *Long-Term Debt*

Long-term debt is summarized as follows:

	20X7	*20X6*
Notes payable to banks, 1/4 to 3/4 over prime and 8% to 9%, payable in varying installments to 2011	$8,800,000	$9,100,000
Notes payable to institutional lenders, 5 1/4% to 10 1/2%, payable to 2011, of which $11,786,000 is secured by real property	3,500,000	3,800,000
Notes payable, other, 1% over prime, payable to 2011	4,500,000	4,600,000
Total long-term debt	16,800,000	17,500,000
Less current installments of long-term debt	(1,000,000)	(700,000)
Net long-term debt	$15,800,000	$16,800,000

The aggregate amounts of principal maturities of debt outstanding at December 31, 20X7, for the five subsequent years are as follows:

20X8	$1,000,000
20X9	3,957,000
20Y0	2,991,000
20Y1	4,896,000
20Y2	3,956,000
	$16,800,000

6. *Fair Value of Financial Instruments* [fn 2] [fn 3]

[fn 2] Financial Accounting Standards Board (FASB) Statement No. 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities—an amendment to FASB Statement No. 107*, amended FASB Statement No.

The carrying amount of the Company's current portion of long-term debt approximates fair value. The fair value of long-term debt, which is based on borrowing rates currently available to the Company for debt issues with similar terms and maturities, is $15,465,000 (20X6, $15,845,000).

7. *Property and Equipment*

In conjunction with plans to expand the casino floor space at one of the Company's Las Vegas casinos, in 20X7, the Company determined that a portion of the furniture and equipment at the facility would be replaced. The Company has reviewed the estimated depreciable lives of the affected assets and shortened the lives based on the estimated timing of the expansion.

Illustrative financial statements and footnotes of **a governmental gaming entity** directly follow the Independent Auditor's Report.

A.9

(INDEPENDENT AUDITOR'S REPORT AND GUIDANCE TO BE SUBSEQUENTLY ADDED.)

107, *Disclosures about Fair Value of Financial Instruments*, to make the disclosures about fair value of financial instruments prescribed in FASB Statement No. 107 optional for entities that meet all of the following criteria:

a. The entity is a nonpublic entity.

b. The entity's total assets are less than $100 million on the date of the financial statements. The entity has no instrument that, in whole or in part, is accounted for as a derivative instrument under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, during the reporting period.

[fn3] FASB Statement 157 establishes a framework for determining fair value based on a hierarchy, with the most desirable evidence of fair value being quoted prices in active markets for identical assets and liabilities and the least desirable evidence being unobservable inputs (such as in a discounted cash flow model).

A.10

XYZ Casino[1]
Balance Sheets
December 31,

Assets	*20X7*	*20X6*
Current assets		
Cash and cash equivalents	**$ 5,678,300**	$ 3,787,100
Receivables, less allowance for uncollectible accounts of $500,000 and $470,000	**1,800,100**	1,695,200
Other current assets	**240,700**	229,100
Total current assets	**7,719,100**	5,711,400
Capital assets, net of accumulated depreciation	**30,383,900**	31,697,615
Other assets and deferred charges	**1,300,000**	1,200,000
Total assets	**$ 39,403,000**	$ 38,609,015
Liabilities and Equity		
Current liabilities		
Current portion of long-term debt	**$ 1,000,000**	$ 700,000
Accounts payable	**928,600**	839,200
Other current liabilities	**944,475**	743,600
Total current liabilities	**2,873,075**	2,282,800
Long-term debt	**15,800,000**	16,800,000
Other	**618,125**	501,000
Total liabilities	**19,291,200**	19,583,800
Equity		
Invested in capital assets, net of related debt	**13,583,900**	14,197,615
Unrestricted	**6,527,900**	4,827,600
Total equity	**20,111,800**	19,025,215
Total liabilities and equity	**$ 39,403,000**	$ 38,609,015

[1] As required by Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, the financial statements would be preceded by management's discussion and analysis, which is not presented here.

A.11

XYZ Casino
Statements of Revenues, Expenses, and Changes in Equity
For the Years Ended December 31,

	20X7	*20X6*
Operating Revenues[2]		
Gaming	**$ 13,802,300**	$ 12,532,100
Rooms	**2,100,600**	1,927,200
Food and beverage	**1,300,300**	1,139,700
Other	**690,600**	542,100
Total operating revenues	**17,893,800**	**16,141,100**
Operating Expenses		
Gaming	**4,012,100**	3,717,600
Rooms	**1,800,000**	1,600,000
Food and beverage	**1,500,000**	1,200,000
Other	**400,000**	300,000
Selling, general, and administrative	**3,021,900**	2,707,700
State revenue sharing	**970,200**	818,000
Depreciation	**2,602,715**	2,597,431
Total operating expenses	**14,306,915**	12,940,731
Operating income	**3,586,885**	3,200,369
Nonoperating Revenues (Expenses)		
Interest expense	**(2,050,300)**	(1,935,300)
Total nonoperating revenues (expenses)	**(2,050,300)**	(1,935,300)
Income before transfers	**1,536,585**	1,265,069
Transfers to XYZ tribe[3,4]		
Gaming taxes and regulation	**250,000**	250,000
Other	**200,000**	200,000

[2] See illustrative financial statements for nongovernmental entity for alternative acceptable presentation of promotional allowances.

[3] GASB Statement No. 34, paragraphs 61 and 112 specify that resource flows within the primary government are classified as internal activity; therefore, gaming taxes and other amounts paid to the sponsoring government are reported as transfers. However, GASB Statement No. 34, paragraph 61 provides resource flows (except those that affect the balance sheet only, such as loans and repayments) between a primary government and its discretely presented component units should be reported as if they were external transactions—that is, as revenues and expenses. The resulting revenue or expense should be reported as nonoperating revenue or expense, below operating income on the casino's statement of revenues, expenses and changes in equity.

[4] If present, capital contributions and distributions would be reported in this section, and the preceding subtotal would be labeled accordingly. Refer to paragraph 100 of GASB Statement No. 34.

	450,000	450,000
Change in equity	**1,086,585**	815,069
Equity, beginning of year	**19,025,215**	18,210,146
Equity, end of year	**$ 20,811,800**	$ 19,025,215

A.12

XYZ Casino
Statements of Cash Flows[5]
For the Years Ended December 31,

	20X7	*20X6*
Cash flows from operating activities		
Cash received from customers	**$ 17,788,900**	$ 16,932,406
Cash paid to vendors	**(3,091,559)**	(2,900,758)
Cash paid to employees	**(7,396,941)**	(7,130,721)
Payment of state revenue sharing	**(970,200)**	(890,127)
Net cash provided by operating activities	**6,330,200**	6,010,800
Cash flows from noncapital financing activities		
Transfers to XYZ Tribe	**(450,000)**	(450,000)
Net cash used in noncapital financing activities	**(450,000)**	(450,000)
Cash flows from capital and related financing activities		
Purchases of capital assets	**(1,295,200)**	(435,200)
Proceeds from sales of capital assets	**6,200**	437,300
Principal payments on long-term debt	**(700,000)**	(1,000,000)
Interest paid on debt	**(2,000,000)**	(1,935,300)
Net cash used in capital and related financing activities	**(3,989,000)**	(2,933,200)
Net increase in cash and cash equivalents	**1,891,200**	2,627,600
Cash and cash equivalents, beginning of year	**3,787,100**	1,159,500
Cash and cash equivalents, end of year	**$ 5,678,300**	$ 3,787,100

[5] The direct method of presenting cash flows from operating activities is required by paragraph 105 of GASB Statement No. 34

A.13

XYZ Casino
Statements of Cash Flows — continued
For the Years Ended December 31,

	20X7	*20X6*
Reconciliation of operating income to net cash provided by operating activities		
Operating income	**$ 3,586,885**	$ 3,200,369
Adjustments to reconcile net operating income to net cash provided by operating activities		
Depreciation	**2,602,715**	2,597,431
Provisions for doubtful accounts	**30,000**	20,000
Change in assets and liabilities		
Accounts receivable	**(134,900)**	(134,400)
Other assets	**(111,600)**	27,500
Accounts payable	**89,400**	38,500
Other current liabilities	**150,575**	55,900
Other long-term liabilities	**117,125**	205,500
Net cash provided by operating activities	**$ 6,330,200**	$ 6,010,800

A.14

XYZ Casino
Notes to Financial Statements
December 31, 20X7 and 20X6

1. *Reporting Entity and Operations*

XYZ Casino (the Casino) offers gaming, lodging, and restaurant services through the operation of a casino-hotel resort, which is an enterprise fund of the XYZ Tribe (the Tribe), a federally recognized Indian Tribe. As a wholly owned unincorporated business enterprise of the Tribe, the Casino is not a separate legal entity. The accompanying financial statements present only the Casino's financial position, changes in financial position, and cash flows. They do not purport to, and do not present fairly, the financial position of the Tribe and changes in its financial position and cash flows of its proprietary fund types in conformity with accounting principles generally accepted in the United States of America.[6]

The Tribe operates gaming activities as provided in a Tribal-State Compact (the Compact) pursuant to the Indian Gaming Regulatory Act of 1988 (IGRA), as approved by the U.S. Department of the Interior, Bureau of Indian Affairs (BIA). The Compact requires certain revenue sharing payments to the State based on a percentage of gross gaming revenue, less certain deductions. It has a seven-year term which expires on September 25, 20X12. The Compact will automatically be extended for terms of seven years, unless the Tribe or the State provides written notice of nonrenewal.

The Tribe has established the XYZ Tribe Gaming Commission (the Gaming Commission) to regulate the gaming operations of the Casino. The Gaming Commission monitors the Casino's compliance with the Compact, the Tribe's gaming codes, the IGRA, and the rules and regulations of the National Indian Gaming Commission (NIGC).

2. *Summary of Significant Accounting Policies*

In accordance with accounting principles generally accepted in the United States of America (GAAP), the Casino applies all applicable pronouncements of the Governmental Accounting Standards Board (GASB), as well as the pronouncements of the Financial Accounting Standards Board (FASB) and Accounting Principles Board opinions and Accounting Research Bulletins issued on or before November 30,

[6] This disclosure is not required for discretely presented component units

1989, provided they do not conflict with or contradict GASB pronouncements. As permitted by GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting,* the Casino has also elected to apply all FASB pronouncements issued subsequent to November 30, 1989 unless they conflict with or contradict GASB pronouncements.

Basis of Accounting

The Casino's financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place.

Operating revenues result from providing services and goods in connection with the Casino's principal ongoing operations. Operating expenses include the cost of sales and services, general administrative and sales and marketing expenses, and depreciation on capital assets. Revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates for the Company include the allowance for uncollectible accounts receivable; useful lives assigned to capital assets; and loyalty program costs.

Cash and Cash Equivalents

The Casino considers all highly liquid investments with a maturity of three months or less when purchased, including overnight repurchase agreements and money market funds, to be cash equivalents.

Inventories

Inventories consisting primarily of food and beverage stock, gaming machine parts, uniforms, and gift shop items are stated at the lower of cost or market. Cost is determined using the first-in, first-out method of inventory valuation.

Capital Assets

Capital assets are stated at cost. Depreciation and amortization of property and equipment are computed using the straight-line method over the estimated useful lives of the related assets as follows:

Land improvements	30–40 years
Buildings	40 years
Furniture and equipment	3–7 years

Leasehold improvements are amortized over the life of the related asset or the life of the lease, whichever is shorter.

The XYZ Tribal Council has approved the use of certain reservation land by the Casino. The Casino does not pay rent for the use of such land, and it remains in trust for the benefit of the Tribe.

Revenue Recognition and Promotional Allowances
Gaming revenue is (*a*) the win from gaming activities, which is the difference between gaming wins and losses, less sales incentives and other adjustments and (*b*) revenue from gaming related activities such as poker, pari-mutuel wagering, and tournaments. Jackpots, other than the incremental amount of progressive jackpots, are recognized at the time they are won by customers. The Company accrues the incremental amount of progressive jackpots as the progressive machine is played and the progressive jackpot amount increases, with a corresponding reduction of gaming revenue. The retail value of accommodations, food and beverage, and other services furnished to hotel-casino guests without charge is included in gross revenue and then deducted as promotional allowances.

Participation and Third Party License Arrangements
The Company leases some of its slot machines from gaming equipment manufacturers under participation arrangements, whereby the gaming manufacturer receives a percentage of the handle or net win associated with the leased machine. The Company also pays third party license fees for proprietary games. Fees paid under participation arrangements and third party license arrangements are recorded as a gaming department expense.

Loyalty Program
The Casino provides a players club (the Club) for its customers. Members of the Club earn points based on gaming activity, and such points are redeemable for cash, free play, or complimentary goods and services such as rooms, food, beverage, etc. Club members may also earn special coupons or awards as determined during marketing promotions. Because redemption of points does not displace a significant number of paying customers and the value of the awards is not significant compared to the original revenue transaction, the company records revenue for the original transaction and a liability for the value of points earned by Club members. The value of the points is determined by referencing the cash value of points expected to be redeemed for cash or free play and the incremental (departmental) cost of points expected to be redeemed for complimentary goods or services. The liability is reduced by points not expected to be redeemed (breakage). The cost of points redeemed for cash is recorded as a reduction of gaming revenue, and the cost of points redeemed for complimentary goods or services is recorded as an operating expense of the gaming department.

Advertising Costs

Advertising costs are expensed as incurred. Sales and marketing expenses included advertising costs of $650,000 and $725,000 for the fiscal years ended December 31, 20X7 and 20X6, respectively.

Income Taxes
As an enterprise owned by the XYZ Tribe, a federally recognized Indian Tribe, the Casino is not subject to federal or state income taxes. Accordingly, no provision for income taxes is included in the accompanying financial statements.

3. *Cash and Cash Equivalents*

Cash and cash equivalents consisted of the following:

	December 31,	
	20X7	20X6
Demand deposits	**$ 3,350,938**	$ 1,489,028
Overnight repurchase agreements	**1,082,362**	661,172
Cash on hand	**1,245,000**	1,636,900
Total cash and cash equivalents	**$ 5,678,300**	$ 3,787,100

Custodial credit risk for demand deposits is the risk that in the event of a bank failure, the Casino's demand deposits may not be returned to it. The Casino does not have a deposit policy for custodial credit risk. The bank balances of demand deposits were $3,421,098 and $1,523,982 at December 31, 20X7 and 20X6, respectively. The bank balances were exposed to custodial credit risk except for $300,000 of Federal Deposit Insurance Corporation (FDIC) coverage.

4. *Accounts Receivable*

Accounts receivable are from customers as follows[7]:

[7] Paragraph 13 of GASB Statement No. 38, *Certain Financial Statement Note Disclosures*, specifies that the notes to the financial statements should provide details when significant components of accounts receivable or accounts payable have been obscured by aggregation. Significant receivable balances not expected to be collected within one year of the date of the financial statements and receivables with different liquidity characteristics should be disclosed

	Gaming	Other	Total
20X7			
Accounts receivable	$2,050,100	$ 250,000	$2,300,100
Less allowance for doubtful accounts	440,000	60,000	500,000
Net	$1,610,100	$ 190,000	$1,800,100
20X6			
Accounts receivable	$1,994,200	$ 171,000	$2,165,200
Less allowance for doubtful accounts	431,000	39,000	470,000
Net	$1,563,200	$ 132,000	$1,695,200

Receivables consist primarily of large groups of smaller-balance homogeneous accounts that are collectively evaluated for impairment.

5. Long-Term Debt

Long-term debt consists of notes payable by XYZ Tribe to various financial institutions summarized as follows:

	20X7	20X6
Notes payable to banks, 1/4–3/4 over prime and 8%–9%, payable in varying installments to 2011	**$ 8,800,000**	$ 9,100,000
Notes payable to institutional lenders, 5 1/4%–10 1/2%, payable to 2011	**3,500,000**	3,800,000
Notes payable, other, 1% over prime, payable to 2011	**4,500,000**	4,600,000
Total long-term debt	**16,800,000**	17,500,000
Less current installments of long-term debt	**1,000,000**	700,000
Net long-term debt	**$ 15,800,000**	$ 16,800,000

The debt is reported by the Casino because it is directly related to and expected to be paid by the Casino[8].

[8] National Council of Governemental Accounting (NCGA) Statement 1, paragraph 42 specifies that enterprise funds report debt that is directly related to their activities and expected to be repaid by them, even though the debt may be an obligation of the government.

Changes in long-term debt for the years ended December 31, 20X7 and 20X6 are summarized as follows:

	20X7	20X6
Beginning balance	**$ 17,500,000**	$ 18,500,000
Additions	**-**	-
Reductions	**700,000**	1,000,000
Ending balance	**$ 16,800,000**	$ 17,500,000

Annual debt service requirements of long-term debt at December 31, 20X7, are as follows:

	Principal	Interest	Total
20X8	$ 1,000,000	$ 1,141,000	$ 2,141,000
20X9	3,957,000	967,505	4,924,505
20X0	2,991,000	724,325	3,715,325
20X1	4,896,000	448,280	5,344,280
20X2	3,956,000	138,460	4,094,460
	$ 16,800,000	$ 3,419,570	$ 20,219,570

6. *Fair Value of Financial Instruments*[9,10]

Such debt need not be reported as a liability of discretely presented component units. If the debt is the legal responsibility of the government, it must be reported as a liability in the primary government financial statements of the governmental reporting entity.

[9] FASB Statement No. 126, *Exemption from Certain Required Disclosures about Financial Instruments for Certain Nonpublic Entities—an amendment to FASB Statement No. 107*, amended FASB Statement No. 107, *Disclosures about Fair Value of Financial Instruments*, to make the disclosures about fair value of financial instruments prescribed in FASB Statement No. 107 optional for entities that meet all of the following criteria:

a. The entity is a nonpublic entity.

b. The entity's total assets are less than $100 million on the date of the financial statements. The entity has no instrument that, in whole or in part, is accounted for as a derivative instrument under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, as amended, during the reporting period.

[10] FASB Statement No. 157 establishes a framework for determining fair value based on a hierarchy, with the most desirable evidence of fair value being quoted prices in active markets for identical assets and liabilities and the least desirable evidence being unobservable inputs (such as in a discounted cash flow model).

The carrying values of the Casino's financial instruments, including cash equivalents, receivables, accounts payable, and certain accrued liabilities, approximate fair value due to their short-term nature. The carrying amount of the Company's current portion of long-term debt approximates fair value. The fair value of long-term debt, which is based on borrowing rates currently available to the Company for debt issues with similar terms and maturities, is $15,465,000 (20X6, $15,845,000).

7. *Capital Assets*

Capital asset activity for the years ended December 31, 20X7 and 20X6 is summarized as follows[11]:

Year Ended December 31, 20X7

	Beginning balance	Increases	Decreases	Ending balance
Land improvements	$ 2,201,100	$ -	$ -	$ 2,201,100
Buildings	27,602,300	-	-	27,602,300
Furniture and equipment	8,995,200	1,295,200	709,300	9,581,100
	38,798,600	1,295,200	709,300	39,384,500
Less: accumulated depreciation				
Land improvements	870,290	55,028	-	925,318
Buildings	4,171,169	690,057	-	4,861,226
Furniture and equipment	2,059,526	1,857,630	703,100	3,214,056
	7,100,985	2,602,715	703,100	9,000,600
Capital assets, net	$ 31,697,615	$ (1,307,515)	$ 6,200	$ 30,383,900

Year Ended December 31, 20X6

	Beginning balance	Increases	Decreases	Ending balance
Land improvements	$ 2,201,100	$ -	$ -	$ 2,201,100
Buildings	27,602,300	-	-	27,602,300
Furniture and equipment	9,528,284	435,200	968,284	8,995,200
	39,331,684	435,200	968,284	38,798,600
Less: accumulated depreciation				
Land improvements	815,262	55,028	-	870,290

[11] In this example, all capital assets are being depreciated. If the entity reported capital assets that were not subject to depreciation, such as land, they would be reported separately on the balance sheet in accordance with paragraph 20 of GASB Statement No. 34.

Buildings	3,481,112	690,057	-	4,171,169
Furniture and equipment	738,164	1,852,346	530,984	2,059,526
	5,034,538	2,597,431	530,984	7,100,9850
Capital assets, net	$ 34,297,146	$ (2,162,231)	$ 437,300	$ 31,697,615

In conjunction with plans to expand casino floor space, the Company recently completed a slot machine upgrade at its casino, replacing a portion of its older slot machines with state of the art machines that contain embedded bill acceptors. The older machines, with a carrying amount of $763,525, are in storage and may be placed back in service once the casino expansion is completed.

Appendix B—Illustrative Guidance When Accounting for Guarantees

Applicability: *This appendix provides guidance applicable to nongovernmental gaming entities. Governmental gaming entities should refer to chapter 12 of this guide and consider the implications of GASB pronouncements that conflict with or contradict guidance provided in this chapter.*

B.1 This appendix provides some examples of the accounting for guarantees under the guidance of Financial Accounting Standards Board (FASB) Interpretation No. 45 (FIN No. 45), *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others* (the primary accounting guidance for guarantees).

B.2 For additional details regarding the various computations and amounts used throughout the following examples, refer to the calculation tables in the back of this appendix.

Hypothetical Agreement Data

B.3 In **all** subsequent examples, an assumption is made that a gaming manager enters into an agreement to manage a casino operation, the "New Casino," for an unrelated third party, the "Casino Owner." As part of the agreement, the "Gaming Manager" agrees to guarantee a $25,000,000 loan and any unpaid interest to be made to the Casino Owner by an unrelated third party bank to fund the development and startup operations of New Casino. The debt (the loan) is secured by all the property and equipment owned by the Casino Owner. Additionally, the terms of the agreement provide, in part, that the Gaming Manager will perform the following functions:

- Provide direction to Casino Owner in setting up its operations in compliance with local gaming regulations
- Provide training to Casino Owner's employees
- Under the direction of Casino Owner, manage New Casino's day-to-day operations
- Serve as a consultant to Casino Owner on management and other issues

B.4 The agreements may stipulate a fee to be paid to the guarantor in exchange for providing the guarantee. In such instances, the guarantor must assess whether or not the contractual fee represents the fair value of the guarantee being provided. For purposes of the following examples, in which the consideration for the guarantee is a component of a multielement contract, it is assumed that the contract terms represent the economics of providing the guarantee to Casino Owner.

Initial Recognition and Measurement Examples

B.5 **Example 1**: *When the agreement includes a provision for the reduction of management fees upon the termination of the guarantee.*

B.6 *Additional hypothetical data for example 1:* The agreement provides that the Gaming Manager will be paid 10 percent of operating earnings (as defined in the agreement) by the Casino Owner for providing services under the agreement, including the guaranteeing of the debt. Further, the agreement provides that the management fee will be reduced from 10 percent to 7 percent if the Gaming Manager is no longer required to guarantee the Casino Owner's debt. The agreement, the debt, and the guarantee are all for five-year periods. The loan (the debt) is due in a balloon payment at the end of year five. The estimated operating earnings of the New Casino and the management fee to be paid to the Gaming Manager over the five-year term of the agreement are as follows:

Table 1

Year	New Casino's projected operating earnings	Gaming Manager's estimated management fee (10 percent)
1	$7,700,000	$770,000
2	8,000,000	800,000
3	8,350,000	835,000
4	8,600,000	860,000
5	9,000,000	900,000
Total	$41,650,000	$4,165,000

B.7 In **Example 1,** the issuance of the guarantee obligates the Gaming Manager in two respects: (*a*) the Gaming Manager undertakes an obligation to stand ready to perform and (*b*) the Gaming Manager undertakes a contingent obligation to make future payments if certain triggering events or conditions occur. Thus, at inception, the Gaming Manager should recognize a liability for the greater of (*a*) the fair value of the guarantee or (*b*) the contingent liability amount required to be recognized at inception of the guarantee by paragraph 8 of FASB Statement No. 5, *Accounting for Contingencies*. For purposes of this example, it is assumed that no evidence exists that it is probable that the Gaming Manager has incurred an estimated loss from a contingency pursuant to paragraph 8 of FASB Statement No. 5. As a result, the Gaming Manager should record the inception liability at fair value.

B.8 The management agreement provides that the management fee will be reduced from 10 percent to 7 percent if the Gaming Manager is no longer required to guarantee the Casino Owner's debt. Given this contractual provision, the present value of the estimated reduction in management fees that would occur (based on contracted amounts), if the manager is no longer required to provide the guarantee, may provide a reasonable estimate of how much of the total fee should be allocated to the premium that would be required by the manager to issue the same guarantee in a stand-alone, arm's length transaction with an unrelated party. Based on the estimated management fees to be earned by the Gaming Manager over the term of the management agreement as outlined in the previous table, the portion of the total management fee ascribed to the premium for providing the guarantee may be reasonably estimated as follows:

Table 2

Year	New Casino's projected operating earnings	Gaming Manager's management fee arising from guarantee (3%)	Gaming Manager's estimated present value (using an assumed discount rate, rounded, of 5%)[1,2]
1	$7,700,000	$231,000	$220,000
2	8,000,000	240,000	218,000
3	8,350,000	*251,000	216,000
4	8,600,000	258,000	212,000
5	9,000,000	270,000	212,000
Total	$41,650,000	$1,250,000	$1,078,000

* Rounded to the nearest thousand.

[1] In accordance with FASB Statement No. 157, *Fair Value Measurements,* the estimated present value should be discounted using a risk adjusted market rate of interest.

[2] The 5% discount rate has been used for illustrative purposes only.

B.9 The estimated present value of the 3 percent projected management fee attributable to the guarantee over the five-year life of the management agreement based on the Casino Owner's budgets is approximately $1,078,000. The Gaming Manager believes that is a reasonable and appropriate measure of the fair value of the premium for providing the guarantee.

B.10 The Gaming Manager should record the following entry at the inception of the guarantee to recognize the fair value of the liability it assumed as a result of issuing the guarantee.

Dr	Contract acquisition cost asset	$1,078,000	
Cr	Guarantee liability		$1,078,000

B.11 **Example 2:** *When the agreement includes no provision for the reduction of management fees upon the termination of the guarantee.*

B.12 *Additional hypothetical data for example 2:* The management agreement includes no provision for the reduction of management fees upon the termination of the guarantee. The loan issued to the Casino Owner by the bank and guaranteed by the Gaming Manager bears interest at 6 percent per annum. The bank asserts that the loan would bear interest at 7 percent per annum if the loan was not guaranteed by the Gaming Manager, and that assertion is objective and verifiable.

B.13 In these circumstances, the premium can be estimated by calculating the present value of the incremental interest that would have been charged to the Casino Owner had the Gaming Manager not provided the guarantee. In this example, the estimated present value of the incremental interest charges that would have been paid by the Casino Owner absent the guarantee is approximately $1,082,000. The Gaming Manager believes that is a reasonable and appropriate measure of the fair value of the premium for providing the guarantee.
B.14 The Gaming Manager will record the following entry at the inception of the guarantee:

Dr		Contract acquisition cost asset	$1,082,000	
	Cr	Guarantee liability		$1,082,000

Subsequent Measurement and Amortization Examples

B.15 Example 3: *Reducing the liability and amortizing the asset using a straight-line method*.

B.16 *Additional hypothetical data for example 3:* After giving initial accounting recognition to the liability and related asset arising from the issuance of the guarantee, the Gaming Manager in subsequent accounting periods (1) reduces the liability (as a credit to earnings as the Gaming Manager is released from risk under the guarantee) and (2) amortizes the intangible asset (a contract or customer acquisition cost) over its estimated useful life as a debit to management contract revenue. The release from risk under the guarantee is recognized over the term of the guarantee using a systematic and rational amortization method. The Gaming Manager concludes that both the liability and the asset should be amortized using the straight-line method. In year one, using the data outlined in **table 1,** assuming that payments are made pursuant to the management agreement as they are due, the Gaming Manager will make the following entries to reflect the aggregate management contract revenue earned, payments received, reduction of the liability pertaining to the guarantee, and amortization of the contract acquisition cost asset:

Dr		Cash	770,000	
	Cr	Management contract revenue (or other income)		770,000

To record cash received for management fees (equals New Casino's operating earnings, as defined in the agreement, of $7,700,000 multiplied by 10%, including 3% fee for providing guarantee).

Dr		Guarantee liability	215,600	
	Cr	Management contract revenue (or other income)		215,600

To relieve the $1,078,000 liability using the straight-line method based on 5-year life of the guarantee. ($1,078,000 divided by 5 years equals $215,600)

Dr		Management contract revenue (or other expense)	215,600	
	Cr	Contract acquisition cost asset		215,600

To amortize the $1,078,000 contract acquisition cost asset using the straight-line method based on a 5-year life of the management agreement.

B.17 **Example 3A:** *Reducing the liability proportionately as the debt is reduced, and amortizing the asset using a straight-line method. In this example, the debt is paid down over time.*

B.18 *Additional hypothetical data for example 3A:* In this example, the Gaming Manager (1) reduces the liability as a credit to earnings as the Gaming Manager is released from risk under the guarantee and (2) amortizes the contract acquisition cost asset over its estimated useful life as a debit to management contract revenue. In this example, the Gaming Manager concludes that the liability should be reduced proportionately as the debt is reduced, and the asset should be amortized using the straight-line method. In year one, using the data in **table 1**, except that interest is payable at 6 percent, and the loan is an amortizing five-year loan with annual payments of principal and interest of $5,935,000. It is also assumed that payments are made pursuant to the debt and management agreements as they are due. At the end of year one, the Gaming Manager makes the following entries to reflect the aggregate management contract revenue earned, payments received, reduction of the liability pertaining to the guarantee, and amortization of the intangible asset.

Dr		Cash	770,000	
	Cr	Management contract revenue (or other income)		770,000

To record cash received equals New Casino's operating earnings, as defined in the agreement, of $7,700,000 multiplied by 10% (including 3% fee for providing guarantee).

Dr		Guarantee liability	191,000	
	Cr	Management contract revenue (or other income)		191,000

To relieve the $1,078,000 initial liability proportionately as the principal balance of the debt is reduced. (Yearly principal portion of the annual payment divided by the original loan balance multiplied by the contract acquisition cost asset–that is, year one ($4,435/$25,000) x $1,078 = $191).

Dr		Management contract revenue (or other expense)	215,600	
	Cr	Contract acquisition cost asset		215,600

To amortize the $1,078,000 contract acquisition cost asset using the straight-line method based on a 5-year life of the management agreement.

B.19 The preceding example depicts one systematic and rational method for the amortization of the liability arising from a debt guarantee. There are other systematic and rational methods to amortize the liability when the debt is being paid down over time.

B.20 **Example 4:** *Early retirement of debt or termination of the guarantee.*

B.21 *Additional hypothetical data for example 4:* In this example, assume facts and circumstances described in **example 1** and that the Gaming Manager adopts the straight-line amortization method for reducing the guarantee liability and amortizing the asset (with a proportionate reduction of the liability if a portion of the debt is prepaid, or the manager is released from the guarantee obligation). After four years of applying this method, the contract acquisition cost asset and guarantee liability accounts each would have a balance of $215,600 (equal to one-fifth of $1,078,000). Further, assume that at the end of year four that the bank releases the Gaming Manager from its obligation and the management fee will be reduced from 10 percent to 7 percent. The Gaming Manager should make the following entry to reduce the guarantee liability to zero because the guarantee no longer exists:

Dr	Guarantee liability	215,600	
Cr	Management contract revenue (or other income)		215,600

To eliminate the guarantee liability balance against revenue because the guarantee (and related liability) no longer exists

B.22 The Gaming Manager will not make an entry to adjust the contract acquisition cost asset because the management contract remains in place and revenues will continue to be earned over the remaining term of the contract. The Gaming Manager should continue to amortize the intangible asset over the remaining term of the contract.[1]

B.23 **Example 5:** *Debt is refinanced prior to maturity with new lender.*

B.24 *Additional hypothetical data for example 5:* In this example, assume the facts and circumstances described in **example 1,** except that at the end of year four, in connection with a planned expansion of the casino facility, Casino Owner refinances the debt and funds its expansion via a new $50 million loan from a new lender guaranteed by the Gaming Manager. Upon retirement of the existing loan, the original lender releases the Gaming Manager from his or her obligation under the original guarantee. In exchange for the new guarantee, the Casino Owner agrees to extend the management contract with the Gaming Manager for four additional years. No change is made to the management fee.

B.25 In such circumstances, two transactions have occurred and are accounted for separately. The first transaction is the termination of the guarantee, similar to the transaction described in example 4. The second transaction is the issuance of the new guarantee in exchange for the extension of the management contract.

B.26 As a result of the termination of the original guarantee, the Gaming Manager should make the following entry to reduce the guarantee liability to zero because the original guarantee no longer exists:

[1] Pursuant to paragraph 8 of Financial Accounting Standards Board (FASB) Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, the reduction in management fees would be a change in circumstances indicating that the carrying amount of the contract acquisition cost asset may not be recoverable. Accordingly, the customer acquisition cost asset (asset group) should be tested for impairment in conformity with FASB Statement No. 144. This example assumes no such impairment exists.

Dr	Guarantee liability	215,600	
Cr	Management contract revenue (or other income)		215,600

To eliminate the guarantee liability balance against revenue because the original guarantee (and related liability) no longer exists.

B.27 Given that the portion of the management fee attributable to providing the guarantee in future periods is used to support the contract acquisition asset recognized in the following entry, the Gaming Manager should also write-off the remaining balance of the existing contract acquisition asset due to the modification of the agreement (see example 9.)

Dr	Management contract revenue (or other expense)	215,600	
Cr	Contract acquisition cost asset		215,600

To write-off the remaining balance of the intangible asset [($1,078,000 initially reported - $862,400 amortized to date) = $215,600 balance after year 4] as a result of the modification of the modification of the agreement.

B.28 The Gaming Manager would then calculate the fair value of the new guarantee pursuant to the terms of the new agreement and record a new Contract Acquisition Cost Asset and new guarantee liability as described in example 1. The asset and liability would be amortized over the lives of the modified management contract and the new guarantee, respectively.

B.29 **Example 6:** *Change in expected operating results—it is probable that the Casino Owner will default.*

B.30 *Additional hypothetical data for example 6:* In this example, assume facts and circumstances described in **example 1,** except that that the loan is an amortizing 5-year loan with annual principal payments. The Gaming Manager concludes that both the guarantee liability and the intangible asset should be amortized using the straight-line method. Further, assume that as of the end of year 1, the Casino Owner has made no debt payments and, based on operating results to date and management estimates, the Gaming Manager concludes that it is probable that the Casino Owner will default on the debt; the bank will demand that the Gaming Manager satisfy the debt; the Casino Owner will go out of business; and the management agreement will not be fulfilled. In this circumstance, the Gaming Manager has incurred an estimated loss from a contingency pursuant to paragraph 8 of FASB Statement No. 5 for having to perform under the guarantee. In addition, the Gaming Manager has incurred an impairment loss pursuant to FASB Statement No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets,* for the contract acquisition cost asset (asset group). The contract acquisition cost asset should be eliminated and an impairment loss reported in conformity with FASB Statement No. 144, including related financial statement disclosures. The Gaming

Manager should make the following entries:

Dr	Impairment loss	862,400	
Cr	Contract acquisition cost asset		862,400

To report an impairment loss pursuant to FASB Statement No. 144 and, therefore, eliminate the intangible asset balance [$1,078,000 initially reported - $215,600 relieved to date].

Dr	Guarantee liability	$862,400	
Dr	Loss on guarantee	24,137,600	
Cr	Contingent liability		$25,000,000

To report a loss for the amount of the guaranteed debt in excess of the guarantee liability.

B.31 **Example 7:** *A change in the expected operating results—the Casino Owner performs better than expected.*

B.32 *Additional hypothetical data for example 7:* In this example, the gaming manager is reducing the guarantee liability on a straight-line basis over the 5-year period of the original guarantee (with a proportionate reduction of the liability if a portion of the debt is prepaid, or the manager is released from the guarantee obligation), similar to the fact pattern in **example 3**. After year 1, based on better than expected operating results to date and management estimates, the Gaming Manager concludes that it is likely that it will be released from the guarantee after year 2, and that the fair value of the guarantee will be significantly less than originally estimated at inception. The Gaming Manager considers reducing the liability on an accelerated basis (beyond amounts that would be reported by reducing the liability on a straight-line basis over the 5-year period of the original guarantee) because its risk has been significantly reduced beyond amounts that would be reported based on a straight-line calculation. The Gaming Manager concludes, however, that it should not reduce the liability on an accelerated basis, consistent with FASB Staff Position (FSP) FIN 45-2, *Whether FASB Interpretation No. 45,* Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value.*[2] The Gaming Manager, therefore, continues to consistently apply the straight-line method for reducing the liability over the life of the debt. Upon its actual release from the guarantee, the Gaming Manager would relieve the remaining balance of the liability to revenue. The accounting for the contract acquisition cost asset will remain the same as it was prior to concluding that it is likely that it will be released from the guarantee after year 2, unless and until the management agreement is revised.

B.33 **Example 8:** *A change in the expected operating results—the Casino Owner prepays a portion of the debt, the Gaming Manager is reducing the liability using a straight-line*

[2]Financial Accounting Standards Board (FASB) Staff Position (FSP) FIN 45-2, *Whether FASB Interpretation No. 45,* Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, *Provides Support for Subsequently Accounting for a Guarantor's Liability at Fair Value*, provides that a guarantor should not use fair value in subsequently accounting for the liability for its obligations under a previously issued guarantee unless the use of that method can be justified under GAAP, as is the case, for example, for guarantees accounted for as derivatives under FASB Statement No. 133, *Accounting for Derivative Instruments and Hedging Activities*, or in the case in which the guarantor has adopted and applied the provisions of FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, to the guarantee liability.

method (with a proportionate reduction of the liability if a portion of the debt is prepaid or the Gaming Manager is released from the guarantee obligation)

B.34 *Additional hypothetical data for example 8:* In this example, the Gaming Manager is reducing the guarantee liability on a straight-line basis, similar to the fact pattern in **example 3,** over the 5-year period of the original guarantee (with a proportionate reduction of the liability if a portion of the debt is prepaid, or the manager is released from the guarantee obligation). Assume that after year 1, because of better than expected operating results to date, management estimates, and falling interest rates, the Casino Owner prepays a portion of the debt ($20,000,000) so that only $5,000,000 of the original $25,000,000 loan is outstanding at the beginning of year 2. The guarantee and related fees, however, remain unchanged. The Gaming Manager should reduce the liability on an accelerated basis (to reflect proportionate reduction of the liability because a portion of the debt is prepaid) to $172,480 [$1,078,000 initial liability × (5/25 debt balance remaining) × (4/5 unamortized portion of liability)], with an offsetting credit to management contract revenue. The contract acquisition cost asset will not be reduced because there is no alteration of the management agreement. The reduction of the liability without reducing the intangible asset accelerates revenue recognition, effectively recognizing the estimated reduction in risk as a revenue producing event (guaranteeing only $5,000,000 of debt versus $25,000,000 of debt). The Gaming Manager should make the following entry:

Dr	Guarantee liability	689,920	
Cr	Management contract revenue (or other income)		689,920

To reduce the guarantee liability to represent the $172,480 adjusted balance of the guarantee ($862,400 balance before adjustment, less $172,480 balance equals $689,920 adjustment required.).

B.35 **Example 8A:** *A change in the expected operating results—the Casino Owner repays a portion of the debt, the Gaming Manager reducing the liability on a straight-line basis.*

B.36 *Additional hypothetical data for example 8A:* In this example, the Gaming Manager is reducing the guarantee liability on a straight-line basis, over the 5-year period of the original guarantee, (with no proportionate reduction of the liability if a portion of the debt is prepaid because the Gaming Manager believes it's obligation is to stand ready to perform over a period of time and is, therefore, not directly correlated with the debt balance,) similar to the fact pattern in **example 3**. Further, assume that after year 1, because of better than expected operating results to date, management estimates, and falling interest rates, the Casino Owner prepays a portion of the debt ($20,000,000), so that only $5,000,000 of the original $25,000,000 loan is outstanding at the beginning of year 2. The guarantee and related fees, however, remain unchanged. Given that the Gaming Manager's accounting policy is to reduce the liability on a straight-line basis, the liability should not be reduced on an accelerated basis. Also, the contract acquisition cost asset should not be reduced because no changes in fees are expected to result from the

Casino Owner prepaying a portion of the debt.

B.37 Example 9: *Modification to the management agreement.*

B.38 *Additional hypothetical data for example 9:* In this example, the Gaming Manager is reducing the guarantee liability on a straight-line basis over the 5-year period of the original guarantee (with a proportionate reduction of the liability if a portion of the debt is prepaid, or the manager is released from the guarantee obligation), similar to the fact pattern in **example 3A**, and the guarantee agreement does not include a provision for the reduction in management fees upon termination of the guarantee, similar to **example 2**. Further, assume that at the end of year 2, the Casino Owner refinances the debt, and the Gaming Manager's guarantee is terminated. In addition, the agreement between the Casino Owner and the Gaming Manager is renegotiated to reduce the management fees by 3 percentage points. The Gaming Manager should write off the liability stemming from the guarantee and recognize management contract revenue. The Gaming Manager should also write-off the remaining balance of the intangible asset because the asset would be impaired under FASB Statement No. 144. Assume 2 years of amortization have already occurred. The Gaming Manager should make the following entries:

Dr		Guarantee liability	646,800	
	Cr	Management contract revenue (or other income)		646,800

To reduce the guarantee liability to zero [($1,078,000 initially reported, less $431,200 ($1,078,000 × 2/5) amortized to date, equals $646,800 balance after year 2]

Dr		Management contract revenue (or other income)	646,800	
	Cr	Contract acquisition cost asset		646,800

To write off the remaining balance of the intangible asset ($1,078,000 initially reported, less $431,200 amortized to date, equals $646,800 balance after year 2,) as a result of the modification of the agreement.

B.39 Example 10: *Financial statement disclosures.*

B.40 Considering the facts and circumstances as described in **examples 1 and 3**, the Gaming Manager's financial statements at the end of year 2 would contain the following disclosure regarding its guarantee of the Casino Owner's debt:

> As part of the agreement under which we manage the facility owned by the Casino Owner, we guaranteed the debt incurred by the Casino Owner to construct its casino property. The outstanding balance of the guaranteed debt as of the end of year 2 was $25 million. We have obtained a second lien on certain real property of the casino enterprise. There can be no assurance, however, that the value of such property would satisfy our obligations in the event these guarantees were enforced. In accordance with the requirements of Financial Accounting Standards Board (FASB) Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for*

Guarantees, Including Indirect Guarantees of Indebtedness of Others, we recognized a liability for the estimated fair value of the guarantee at its inception. A liability, representing the fair value of our guarantees, and a corresponding contract acquisition cost asset were recorded and are being amortized over on a straight-line basis over the life of the related agreements. We estimated the fair value of the obligation by considering what premium would have been required by us or by an unrelated party. The amounts recognized represent the present value of the premium in interest rates and fees that would have been charged to the Casino Manager if we had not provided the guarantee. The balance of the liability for the guarantees and of the related assets at the end of year 2 was $646,800.

B.41

Calculation Tables

The information in the following tables has been used throughout the examples contained in this appendix. Some general information applicable to the tables is

Original debt balance:	$25,000,000
Original management fee:	10%
Management fee reduction upon the elimination of the guarantee:	3%
Stated interest rate:	6%
Interest rate without the guarantee:	7%
Initial measurement of the guaranty liability:	$1,078,000

The initial measurement of the guarantee value by the contractual reduction in the management fee was computed as follows (amounts are in thousands):

Year	Estimated operating earnings	Estimated management fee (10%)	Fee increment for providing guarantee (3%)	Discounted at 5% annually	Discounted amount of fee increment
1	$7,700	$770	$231	0.9524	$220
2	8,000	800	240	0.9070	218
3	8,350	835	251	0.8638	216
4	8,600	860	258	0.8227	212
5	9,000	900	270	0.7835	212
	$41,650	$4,165	$1,250		$1,078

The initial measurement of the difference in the interest rate charged in the absence of the guarantee was computed as follows (amounts are in thousands):

Year	Annual interest: Stated interest	Annual interest: Without guarantee	Difference	Discounted at 5% annually	Discounted value
1	$1,500	$1,750	$250	0.9524	$238
2	1,500	1,750	250	0.9070	227
3	1,500	1,750	250	0.8638	216
4	1,500	1,750	250	0.8227	206
5	1,500	1,750	250	0.7835	196
					$1,082

Various calculations of the guarantee liability amortization were computed as follows (amounts are in thousands):

Year	Loan balance	Total annual payment	Principal portion of payment	Remaining principal balance	Straight line amortization of the liability
at inception				$25,000	
1	$25,000	$(5,935)	$(4,435)	20,565	$215.6
2	20,000	(5,935)	(4,701)	15,299	215.6
3	15,000	(5,935)	(4,983)	10,017	215.6
4	10,000	(5,935)	(5,282)	4,718	215.6
5	5,000	(5,935)	(5,599)	-	215.6
			$(25,000)		$1,078

Various calculations of the contract acquisition cost asset were computed as follows (amounts are in thousands):

Year	Estimated operating earnings	Management fee (10%)	Annual Amortization Straight-line method
1	$7,700	$770	$215.6
2	8,000	800	215.6
3	8,350	835	215.6
4	8,600	860	215.6
5	9,000	900	215.6
		$4,165	$1,078

Appendix C—*The New Jersey Casino Reinvestment Development Authority*

Applicability: *This appendix provides guidance applicable to nongovernmental gaming entities. Governmental gaming entities should refer to chapter 12 of this guide and consider the implications of GASB pronouncements that conflict with or contradict guidance provided in this chapter.*

C.1 The guidance in this appendix applies to casinos licensed in the state of New Jersey and subject to the requirements of the New Jersey Casino Reinvestment Development Authority (CRDA). If a casino is subject to similar arrangements in other jurisdictions, consider following the guidance in this appendix to the extent that it is relevant.

Background

C.2 Casinos operating in the state of New Jersey are subject to the requirements of the CRDA. The purpose of the CRDA is to maintain public confidence in the casino gaming industry as a unique tool of urban redevelopment; to provide licensees with an effective method of encouraging new capital investment in the surrounding areas; to further and promote tourist industries; and to provide loans and other financial assistance for the development of low income housing. The requirements of the CRDA are an ongoing responsibility with annual investment requirements.[1]

C.3 Under New Jersey law, casino licensees have the option of either (1) paying a percentage of their gross gaming revenues to the CRDA as a tax or (2) investing the same amount in "obligation deposits" (defined in the following text) of the CRDA. Generally, most licensees in New Jersey elect to invest a percentage of their gross revenues in obligation deposits of the CRDA rather than pay the tax.

Summary of Selected Accounting Concepts and Literature

C.4 Arrangements to invest in obligation deposits should be assessed for their substance. The arrangements may include elements that are effectively a gaming tax, and such elements should be accounted for as an expense. The multiple elements of the arrangement generally should be accounted for at their fair value.

C.5 The primary accounting literature relating to investments in obligation deposits of the CRDA is Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity*

[1] For additional information regarding the New Jersey Casino Control Commission and the New Jersey Casino Control Act, including Article 12 (5:12-160) of the Act, readers may go online to www.state.nj.us/casinos/.

Securities, FASB Statement No. 157, *Fair Value Measurements*, FASB Statement No. 114, *Accounting by Creditors for an Impairment of a Loan,* and FASB Concepts Statement No. 6, *Elements of Financial Statements.*

Obligation Deposits

C.6 The amounts invested in obligation deposits are restricted assets owned by the casino licensee ("Licensee"). The Licensee can use the obligation deposits to either (*a*) purchase bonds issued by the CRDA or (*b*) make direct investments in projects approved by the CRDA, including improvements to the Licensee's assets or infrastructure improvement projects in Atlantic City or elsewhere in the state of New Jersey (commonly referred to as *direct investments*). The Licensee can elect to allocate its obligation deposits to bonds, direct investments approved by the CRDA, or any combination thereof.

C.7 Obligation deposits are due quarterly. Interest is earned at the stated rate that approximates two-thirds of the current market interest rate for liquid, low risk investments, such as money market funds. Interest earned by the Licensee is taxable to the Licensee and is deposited in the Licensee's obligation deposit account.

CRDA Bonds[2]

C.8 CRDA bonds typically have loan origination fees, pay taxable interest at below market rates, and typically have maturity dates of up to 50 years. Loan origination fees are paid by the Licensee, and interest earned is deposited to the Licensee's obligation deposit account. Depending upon the terms, the Licensee receives the principal and interest earned periodically or at maturity of the CRDA bonds.

Licensees Subject to the CRDA

C.9 Licensees that elect to pay a percentage of their gross gaming revenues as a tax report the amounts paid to the CRDA as a gaming tax as the gaming revenues are earned.

C.10 Licensees that elect to invest in obligation deposits of the CRDA need to account for the multiple elements of the transaction. That is, a portion of the amount invested with the CRDA is effectively a gaming tax, and a portion is the fair value of the gaming entity's investment in the obligation deposit. Initially, obligation deposits are reported at fair value. Under the guidance of FASB Statement No. 157, the fair value of the initial obligation deposit assumes the highest and best use of the obligation deposit by market participants, considering the use of the asset that is physically possible, legally permissible, and financially feasible at the measurement date. Generally, the fair value of the initial obligation deposit is less than its face amount because (*a*) its use is restricted to

[2] CRDA bonds are not backed by the full faith and guarantee of the state of New Jersey.

either purchase CRDA bonds or make direct investments and (*b*), as discussed previously, the interest rate on the obligation deposits is below market. For example, once the disposition of the obligation deposit is known, Licensees should account for the obligation deposit because it is ultimately used for CRDA bonds, direct investments to which the casino will have title, or direct investments to which the Licensee will not have title. The difference between the face amount of the initial obligation deposit and its fair value is reported as a gaming tax expense.

C.11 Interest income on obligation deposits invested in CRDA bonds will generally be recorded on an effective interest method, which records a constant interest rate over the life of the bonds, based on the initial fair value of the bonds recorded and the discount rate applied to the future cash flows when acquired.

C.12 In circumstances in which the Licensee elects to use obligation deposits to purchase CRDA bonds, the investment in CRDA bonds is a special purpose restricted investment[3] by the Licensee. Because the interest rate on the bonds is below market, the fair value of investments in CRDA bonds is generally less than the bond's face amount. Investments in CRDA bonds should be initially recognized at fair value. Interest received on CRDA bonds is generally recorded as interest income when earned and generally reported as an addition to the investments in CRDA bonds (discounted as discussed earlier). After the initial determination of fair value, the Licensee will generally analyze the recoverability of the bond and its effect on reported amounts based upon the ability and the likelihood of the CRDA to repay the bond. If indications exist that the value of the bond is further impaired, the asset will generally be adjusted in accordance with either FASB Statement Nos. 114 or 115 as appropriate.

C.13 In certain instances, the CRDA encourages and provides a Licensee an incentive to utilize their obligations for infrastructure investments for which the Licensee does not hold title, and a direct return will not be realized, nor will the funds ultimately be returned to the Licensee. These incentives generally take the form of a reduction in the investment that would otherwise be required by the Licensee. There is generally a cash flow incentive to the Licensees. For instance, rather than making a 50-year investment at a below market rate, the Licensee gives up any future rights to some discounted amount of investment but receives credit as if they had invested the larger amount. Licensees will generally report as gaming tax expense the book value of obligation deposits used to make direct investments for which the Licensee does not retain title or expect return of the invested funds. For example, a licensee will generally report gaming tax expense for

[3] Subject to classification, the guidance in Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards No. 114, *Accounting by Creditors for an Impairment of a Loan* or FASB No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, will apply to the special purpose restricted investment.

the amount of direct investments made to build an expressway exit to take customers to the Licensee's casino neighborhood in circumstances in which the Licensee does not retain title or control the use of the expressway exit.

C.14 Licensees will generally report as assets measured at fair value, property acquired with obligation deposits for which the Licensee retains title, controls others' access, and obtains economic benefit. Licensees generally depreciate such assets over their estimated useful life.

C.15 In certain situations, a Licensee may commit to the use of CRDA funds for a specific project over a period of time. To the extent that the commitment pertains to existing investments in obligation deposits, the Licensee will apply the accounting discussed in the chapter on the date the commitment is made. To the extent that the commitment pertains to future investments in obligation deposits (that is, obligation deposits that have not yet become due because they pertain to amounts that will be owed by the Licensee to the CRDA based on future revenues), the Licensee will disclose the nature and amount of the commitment, if material. Licensees do not accrue any additional liabilities for such commitments because a liability does not exist unless and until the Licensee earns the revenue obligating it to pay the obligation deposit to the CRDA. In addition to any disclosures discussed previously, the notes to the financial statements generally will disclose the following pertaining to CRDA investments:

- The entity's accounting policy for CRDA investments
- The amount of deposit obligations and bonds and the related discount
- The disclosure requirements of FASB Statement No. Statement 114, paragraphs 20–20A, or FASB Statement No. 115, paragraphs 19–22

Appendix D—Currency Transaction Reporting in the Gaming Industry

***Applicability:** This appendix provides guidance applicable to nongovernmental gaming entities. Governmental gaming entities should refer to chapter 12 of this guide and consider the implications of GASB pronouncements that conflict with or contradict guidance provided in this chapter.*

Introduction

D.1 Money is "laundered" to conceal illegal activity, including the crimes that generate the money itself such as drug trafficking, so that the money can be used without detection of its criminal source. Financial institutions have been both witting and unwitting participants in laundering activities. Banks have been major targets in laundering operations because they provide a variety of services and instruments, including cashier's *checks*, traveler's checks, and wire transfers, which can be used to conceal the source of illicit proceeds. Criminals may also attempt to use casinos to hide or disguise the origin of funds derived from illegal activity because casinos provide similar types of services as those offered by banks as a normal part of casino operations. As a result of this risk, various laws enacted to prevent money laundering are applicable to casinos. In order to mitigate risk and to support national and international efforts against financial crime, it is important that casinos and auditors have a basic understanding of how money laundering schemes can operate. Many of the same controls used by casinos for purposes of protecting their assets and marketing to customers may be used to detect and prevent money laundering. Various requirements of federal regulations promulgated through the years have enhanced these internal controls.

D.2 Federal currency transaction regulations for casinos require monitoring of customer transactions using procedures that casinos routinely utilize in the normal course of their business. Casinos are always interested in knowing their customers in order to market to them for future visits and to provide complimentaries commensurate with the policies of the casino for the level of play of the customer. They also attempt to monitor the customer's gambling activity including the status of the customer's cash and credit play. For instance, a large credit player might visit the cage with the residual of the chips they obtained with a marker taken at a table game. Casinos prefer that patrons pay off marker debts rather than leaving with cash while the casino maintains a receivable. Similarly, if a customer made a deposit of cash with the casino against which the customer was to play by signing 10 markers at a table game against that cash deposit, the casino may segregate the specific currency deposited by the customer and return those bills when the customer deposit was refunded at the cage. These procedures are established by the casino to prevent activity that is not in their best interests. While the gaming industry desires to accommodate the needs of their customers for purposes of gaming, they do not want to function as a bank for their customers. Nor do the casinos want customers to use the casino cage for large currency exchanges or to use the gaming operation as a conduit for large wire transfers into and out of the casino with little or no gambling activity.

D.3 To assist the casino industry and its auditors, this appendix provides some basic background information on money laundering related laws and regulations; describes several indicators of money laundering involving casinos; gives examples of certain warning signs that may help casinos protect themselves against money launderers and other criminals; and discusses obligations of auditors that may discover such activity.[1]

Background on Money Laundering

D.4 **Money laundering** can be a complex process. It involves three different, and sometimes overlapping, stages:

- *Placement* involves physically placing illegally obtained money into the financial system or the retail economy. Money is most vulnerable to detection and seizure during the placement stage.
- *Layering* involves separating the illegally obtained money from its criminal source by layering it through a series of financial transactions, which makes it difficult to trace the money back to its original source.
- *Integration* involves moving the proceeds into a seemingly legitimate form. Integration may include the purchase of, for example, automobiles, businesses, and real estate.

D.5 An important factor connecting the three stages of this process is the paper trail generated by financial transactions. Criminals try to avoid leaving this paper trail by attempting to circumvent reporting and recordkeeping requirements. Money launderers avoid reporting and recordkeeping requirements by "structuring" transactions, coercing or bribing employees not to file proper reports or complete required records, or by establishing apparently legitimate "front" businesses to open accounts or establish preferred customer relationships.

Bank Secrecy Act Regulations

D.6 In the United States, anti-money laundering legislation was first created in 1970 with the passage of the Bank Secrecy Act (BSA). This act required bankers to keep records

[1] Some of the information in this chapter was obtained from publications by the Financial Crimes Enforcement Network (FinCEN), specifically, *Suspicious Activity Reporting Guidance for Casinos* and *Money Laundering Prevention—A Money Services Business Guide*.

and file reports about certain cash transactions. In 1985, the U.S. Department of the Treasury (Treasury) adopted regulations requiring the reporting of cash transactions by casinos. Congress passed the Money Laundering Control Act of 1986, which criminalized the act of money laundering. This was followed by the Annunzio-Wiley Anti-Money Laundering Act in 1992, and the Money Laundering Suppression Act of 1994, which added *casinos* to the definition of financial institutions in law (31 U.S.C. §5312). Following the terrorist attacks of September 11, 2001, the USA PATRIOT Act of 2001 (Patriot Act) substantially amended, and increased awareness of, the core BSA requirements and, once again, focused on the ability of financial institutions to combat money laundering and terrorist financing. As with many criminal activities, other legislation may be enacted in the future.

D.7 The Financial Crimes Enforcement Network (FinCEN), a bureau of the Treasury, administers and issues regulations pursuant to the BSA. The Internal Revenue Service serves as the examination authority of the BSA. Through certain BSA reporting and recordkeeping requirements, paper trails of transactions are created that law enforcement and others can use in criminal, tax, and regulatory investigations. The reporting and recordkeeping provisions of the BSA apply to banks, savings and loans, credit unions and other depository institutions (collectively referred to as *banks)*, and to other businesses defined as financial institutions, including casinos, brokers and dealers in securities, and money services businesses (collectively referred to as *nonbanks*). All financial institutions are required by federal regulation to report both large currency transactions and suspicious monetary transactions. BSA regulations can be found in Title 31 of the Code of Federal Regulations (CFR), Part 103.

D.8 Casinos and card clubs are typically considered financial institutions and subject to the requirements of the BSA when they are located in the United States and have gross annual gaming revenue in excess of $1 million. Even when this gaming revenue threshold is not met, casinos and card clubs are generally required to report large inflows of currency into their trades or businesses.

Civil and Criminal Penalties

D.9 Civil and criminal penalties can be imposed for violations of anti-money laundering laws and regulations. Penalties can result in substantial fines and prison terms. For instance, the maximum criminal penalty for violating a BSA requirement is a fine of up to $500,000 or a term of imprisonment of up to 10 years, or both. Therefore, it is important that casino employees are thoroughly trained on how to comply with BSA regulations, and that a system is in place to ensure that employees are following all anti-money laundering laws and regulations including the timely filing of all required reports.

Summary of Selected BSA Regulations

D.10 The following summarizes some of the key provisions of the BSA regulations for casinos:

- *Suspicious Activity Report.* All casinos subject to the BSA regulations are required to file reports on suspicious activity and must maintain a copy of all reports filed as well as any supporting documentation for a period of five years from the date of the report. Upon request, casinos must make all supporting documentation available to FinCEN.
- *Anti-Money Laundering (AML) Compliance Program.* All casinos are required to develop and implement an AML compliance program.
- *Currency Transaction Report.* Casinos must file reports on cash-in or cash-out transactions in currency involving more than $10,000 conducted by, through, or to the casino on any one day by or on behalf of the same person.
- *Monetary Instrument "Log."* Casinos must maintain certain information on the sale of monetary instruments from $3,000 to $10,000, inclusive.
- *Funds Transfer Rules.* Casinos must maintain certain information for funds transfers, such as sending or receiving a payment order for a money transfer of $3,000 or more regardless of the method of payment.
- *Record Retention.* All BSA records must be retained for a period of five years and must be filed or stored in such a way as to be accessible within a reasonable period of time.

Suspicious Activity Reporting Requirements

D.11 Under BSA requirements, casinos are required to file a report of any suspicious transaction relevant to a possible violation of law or regulation. In addition, a casino may file a report of any suspicious transaction that it believes is relevant to the possible violation of any law or regulation, but whose reporting is not required by regulation. The transactions are reported on *Suspicious Activity Report by Casinos and Card Clubs* (SARC), FinCEN Form 102. Further, CFR generally requires that a transaction requires reporting if it is conducted or attempted by, at, or through a casino and involves or aggregates at least $5,000 in funds or other assets, and the casino knows, suspects, or has reason to suspect that the transaction (or a pattern of transactions of which the transaction is a part):

(i) involves funds derived from illegal activity or is intended or conducted in order to hide or disguise funds or assets derived from illegal activity;

(ii) is designed, whether through structuring or other means, to evade any requirements of the Bank Secrecy Act of the BSA regulations;

(iii) has no business or apparent lawful purpose or is not the sort in which the particular customer would normally be expected to engage; or

(iv) involves use of the casino to facilitate criminal activity.

D.12 A casino should develop and implement a SARC program as a part of its overall AML Compliance Program. An effective SARC program is one that is developed and implemented commensurate with the risks posed by the products and financial services provided by the casino, and that is maintained and reasonably designed to prevent the casino from being used to facilitate money laundering or terrorist financing. Each casino should apply the same risk based analysis of its business model to create a process for detection, analysis, and reporting of potentially suspicious activity. If the casino determines that an activity is suspicious, it must file a SARC. The casino, after investigation, may determine that the activity is not suspicious. In that case, the casino should document the basis for its determination that the transaction is not, after all, suspicious.

D.13 SARC compliance examinations by federal regulators will look at whether a casino's written program is designed to address the money laundering risks of the casino's particular business, whether the casino and its employees are following the program, whether employees are being properly trained, whether the program is being audited, results of these audits, and how the casino responds to the finds of compliance audits.

D.14 If a financial institution files a SARC with a government agency, the financial institution may not notify any person involved in the transaction that the transaction has been reported. Under certain circumstances, the casino is prohibited from complying with any subpoena or other request that is requesting disclosure of a SARC, and the casino and their employees are provided certain safe harbor protections from liability.

D.15 Auditors should take steps to ensure that they do not disclose SARCs or any related information filed by its client except where permitted by law.

D.16 If the casino has a separate state, local, or tribal suspicious activity reporting obligation, or an obligation to provide SARC information to state, local, or tribal regulators, the casino may provide the SARC or the information contained therein to those regulators pursuant to state law.

Suspicious Activity Examples

D.17 A casino is required to file a SARC if it "knows, suspects, or has reason to suspect" an activity or transaction is suspicious. It is not required to have proof of any illegality, nor is it required to form a legal opinion. It is the responsibility of the appropriate governmental agencies to analyze the SARCs received from all reporting financial institutions and to investigate possible violations of the law.

D.18 Potentially suspicious activities that require reporting may include the following:

- Structuring (see subsequent discussion)

- Terrorist financing (see subsequent discussion)
- Bribery or attempt thereof of casino employees
- Check and credit/debit card fraud
- Embezzlement/theft
- Misuse of position by a casino employee or knowingly assisting a patron in suspicious or prohibited activity
- Large currency exchanges, especially where small denomination bills are exchanged for larger denomination bills (conversion may be attempted to reduce the quantity of bills in order to facilitate the transportation of illegally obtained currency)
- Large financial transactions by a casino patron where the patron only conducted minimal gaming activity (patron may be attempting to create the appearance of gaming wins when no such gaming activity has occurred)
- Use of multiple credit or deposit accounts
- False or conflicting identification credentials

"Red Flags"

D.19 When a single factor signals that a transaction is unusual and possibly "suspicious," it is a "red flag." Examples of some common red flags are as follows:

- Unusual customer identification or information including false identifications; two or more customers using similar identifications; altering transactions upon learning they must show identification and altered spelling or order of the full name
- Transactions below relevant thresholds of $10,000 for cash or $3,000 for wire transactions
- Transactions involving multiple persons working together to break one transaction into two or more transactions or using two or more locations or cashiers in the same day in order to break one transaction into smaller transactions and evade the BSA reporting or recordkeeping requirement

Structuring

D.20 Structuring is a violation of the BSA. It applies to conduct engaged in for the purpose of evading the thresholds for reporting or recordkeeping. If a casino observes a customer engaging in multiple cash transactions that are divided into amounts low enough to avoid the filing of a Currency Transaction Report by Casinos (CTRC) or other BSA recordkeeping requirements, but when added together would trigger one of these requirements, that customer's conduct might raise one of the previously discussed red flags that the customer may be "structuring" his or her transactions. In addition to the red flags, other examples include a customer with a $100,000 marker debt who repeatedly brings $9,000 in cash to the casino over a number of days to make partial payments on the debt, or a group of persons each wires funds of $2,990 from or to the same account.

Terrorist Financing

D.21 Terrorist financing does not necessarily involve criminal proceeds. It is the means by which terrorist groups transfer funds around the world. Examples may include customer requests for suspicious wire transfers into or from financial institutions in countries known as being friendly to terrorism, unfamiliar charities, use of multiple financial institutions, or requests for airplane tickets, jewelry, or other noncash gifts (easily converted to cash) to be given as a complimentary to a friend or to an unknown party.

D.22 FinCEN has issued a document entitled *Suspicious Activity Reporting Guidance for Casinos* to provide assistance specifically written for casinos, which can be found online at www.fincen.gov.

Anti-Money Laundering Compliance Program Requirements

D.23 The Patriot Act and BSA regulations require casinos to establish an AML compliance program. The casinos are required to develop and implement a written program reasonably designed to assure and monitor compliance that includes a system of internal controls to assure ongoing compliance; internal or external independent testing, or both, for compliance; training of personnel; individual responsibilities; procedures for compliance with recordkeeping, retention, and reporting requirements; and use of data processing systems.

Currency Transaction Reporting Requirements (CTRC)

D.24 Casinos are required to report on a CTRC, FinCEN Form 103, and each transaction in currency involving cash-in and cash-out of more than $10,000 in a gaming day. Cash-in and cash-out are to be aggregated separately, and multiple currency transactions shall be treated as a single transaction if the casino has knowledge that they are by, or on behalf of, any person and result in either cash-in or cash-out totaling more than $10,000 during any gaming day.

D.25 Transactions in currency involving cash-in and cash-out include, but are not limited to, purchase or redemption of chips, tokens, and plaques; front money or safekeeping deposits and withdrawals; payments or advances on any form of credit, bets, or exchanges of currency; currency given to a casino to purchase a casino check or to make a wire transfer for a customer; exchanges of currency (including foreign currency); payments on wagers; and check cashing or reimbursements for travel and other customer expenses.

D.26 CTRCs must be filed within 15 calendar days following the day the reportable transaction occurs, and casinos must retain copies of all filed CTRCs for 5 years from the date of the report.

Other Requirements

D.27

AUDITING GUIDANCE TO BE ADDED SUBSEQUENTLY

Appendix E—Rules of the Games

E.1 This appendix describes the rules of various games commonly found in a gaming. The descriptions are intended to be representative, but the rules, odds, and payoffs often differ depending on the particular gaming entity and its location.

Craps

Method of Play

E.2 Craps is played on a large table and offers a variety of bets. Each bet is dependent upon the point value of the uppermost sides of two dice that come to rest after having been thrown by the *shooter*. Refer to the diagram of the craps table layout on the following page for placement of various bets.

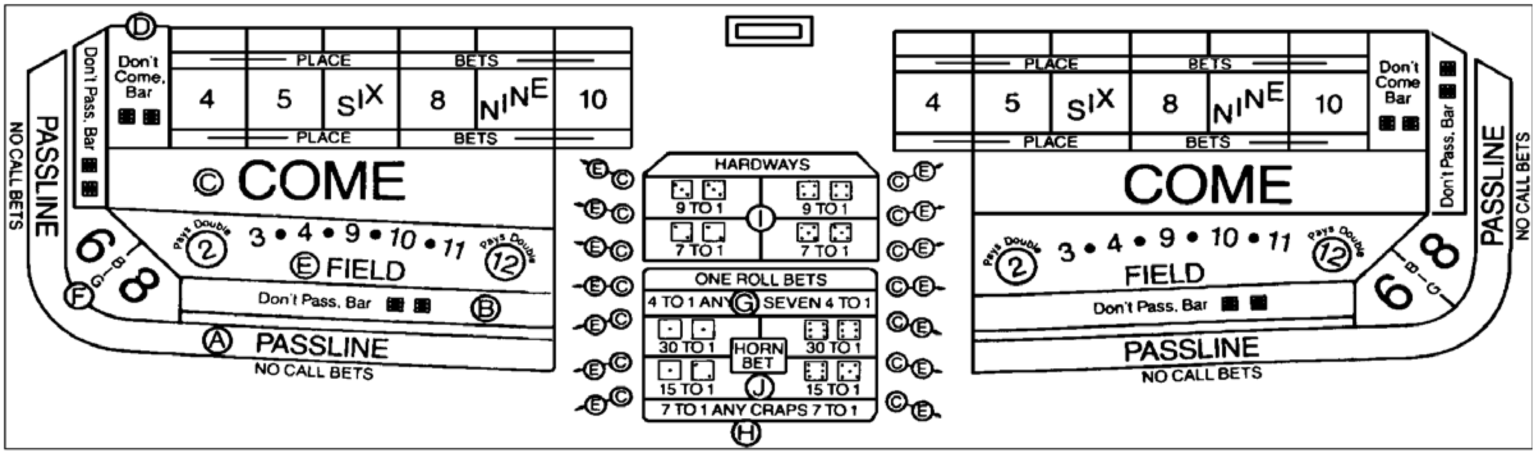
E.3 *Pass Line (A).* If a player places a bet on the Pass Line and the first roll of the dice (known as the *Come Out Roll*) is a 7 or an 11, he or she wins automatically. If a 2, 3, or 12 are rolled, he or she *craps out,* or loses. Any other number rolled (that is, 4, 5, 6, 8, 9, or 10) becomes the Pass Line *point.* Pass Line bets win if the shooter rolls the point before rolling a 7. If a 7 is rolled prior to the point being made, the shooter *sevens out,* and the Pass Line bet loses, whereupon the dice are passed to the next player. A player need not be the shooter to make a Pass Line bet; however, the shooter must bet on either the Pass Line or Don't Pass Line.

E.4 *Don't Pass Line (B).* The Don't Pass Line bet is the opposite of the Pass Line bet; that is, the bet wins automatically on the Come Out Roll if a 2 or 3 is rolled and loses automatically if a 7 or an 11 is rolled. A roll of 12 is a standoff on the Don't Pass Line (In some casinos, a roll of a 2 is a standoff, and a 12 is an automatic win.). Any other number rolled becomes the point. To win, a 7 must be rolled before the point is thrown. If the point is rolled prior to a 7, the bet loses. A Don't Pass bet may not be made *after* the Come Out Roll. A player need not be the shooter to make this bet.

E.5 *Come (C).* A player can "come" at any time after a point has been established on the Come Out Roll. The win-loss rules are the same as for the Pass Line. The next roll of the dice determines whether the player automatically wins, loses, or establishes the point that must be rolled before a 7 to win. The Come bet and second point (if applicable) are independent of the original Pass Line point.

E.6 *Don't Come (D).* The Don't Come bet may be made any time after a point has been established. The win-loss rules are the same as for the Don't Pass Line, but the automatic win, loss, or determination of the point is established by the next roll of the dice. Like the Come bet, the Don't Come bet allows a player to bet on each roll of the dice.

E.7



E.8 Pass Line, Don't Pass Line, Come, and Don't Come bets are paid even money. Pass Line and Don't Pass Line bets may be made only on the Come Out Roll and may not be bet after the point is established. Don't Pass Line and Don't Come bets may be decreased or removed at any time, but they may never be increased.

E.9 *Odds.* A player may elect to make a wager in addition to the original, or *flat,* bet any time after the point is established. A player may *take* odds on any Pass Line or Come bet. A player may also *lay* odds on any Don't Pass or Don't Come bet. Typical odds payouts are shown on the table on the following page. The Odds bet wins if the flat bet wins and vice versa.

E.10 *Buy and Lay bets.* Buy and Lay bets pay odds without requiring a *flat* bet and may be made directly on a 4, 5, 6, 8, 9, or 10 at any time, without waiting for the number to roll the first time. These bets may be made on one or more of these numbers. The *Buy bet* is a bet that the specific number will roll before a 7; it is similar to the Pass Line bet. A *Lay bet* is a bet that a 7 will roll before the specific number; it is similar to the Don't Pass Line bet. In either case, the wager is paid according to true odds. A commission is usually charged on all Buy and Lay bets, either on the amount bet if it is a Buy bet or on the amount that can be won if it is a Lay bet.

E.11 *Place bets to win.* A Place bet to win is the same as a Buy bet except that the odds are different, and no commission is charged. Refer to the table on the following page for Place bet odds.

E.12 All odds, Buy bets, and Place bets may be increased, decreased, taken back by the player, or called "off" at any time. Come odds, Buy bets, and Place bets to win are always off on the Come Out Roll unless designated otherwise by the player. Come odds, Don't Pass odds, Don't Come odds, Buy bets, and Place bets are all given to the dealer, who places them in the proper locations on the layout. Each player is responsible for placing Pass Line odds on the layout and keeping track of all bets paid, won, or lost.

E.13 *Field (E).* The Field bet is a one-roll bet that may be made on any roll. If a 2, 3, 4, 9, 10, 11, or 12 is rolled, the bet wins. All numbers pay even money, except 2 and 12, which usually pay double or triple. If any other numbers are rolled, the bet loses.

E.14 *Big 6 or Big 8 (F).* The bet wins if a 6 or an 8 is rolled before a 7. The wager pays even money (in some locations, if the wager is six dollars or a multiple of 6, the bet pays 7 to 6). The bet may be made on any roll.

E.15 *Any 7 (G).* If a 7 is rolled, the bet wins and pays 4 to 1. All other numbers lose.

E.16 *Any craps (H).* If a 2, 3, or 12 is rolled, the bet wins and pays 7 to 1. All other numbers lose.

E.17 *Hardways (I).* Hardways may be bet on any roll. The four possible Hardway bets are a Hard Six (two 3s) and a Hard Eight (two 4s), which pay 9 to 1, and a Hard Four (two 2s) and a Hard Ten (two 5s), which pay 7 to 1. The player wins if the Hardway he is betting rolls before a 7. The bet loses if a 7 is rolled first or if the number is rolled with a nonpair combination. For example, a Hard Six wins only if two 3s are thrown before a 7 or before an *Easy way* 5 and 1, or 4 and 2 combination. Hardways are always off unless the player designates the bet to be in action on the Come Out Roll.

E.18 *Horn High bets (J).* Horn High bets are typically bet in units of five because a player is effectively betting one unit each on 2, 3, 11, and 12, with one additional unit bet on the one number he designates. For example, a five-dollar Horn High 12 has one dollar bet on 2, 3, and 11 and two dollars bet on 12. If one of these 4 numbers is rolled, the payoff is according to the payout odds for that number of dollars effectively wagered on that number less the amount bet on the three losing numbers. The player may also bet on just one of the Horn bets. They are as follows:

TWO CRAPS OR ACES: If two "aces," or a 2, is rolled, the bet wins and pays 30 to 1.
TWELVE CRAPS: If a 12 is rolled, the bet wins and pays 30 to 1.
THREE CRAPS OR ACE-DEUCE: If "ace-deuce," or a 3, is rolled, the bet wins and pays 15 to 1.
ELEVEN: If an 11 is rolled, the bet wins and pays 15 to 1.

E.19

Craps Payout Odds

	Payout Odds		Payout Odds
Pass Line Bet	1 to 1	*Don't Pass Line Bet*	1 to 1
Come Bet	1 to 1	*Don't Come Bet*	1 to 1
Pass Line Odds, Come Bet Odds, and Buy Bets		*Don't Pass Line Lay Odds, Don't Come Lay Odds, and Lay Bets*	
▪ Points of 4 or 10	2 to 1	▪ Points of 4 or 10	1 to 2
▪ Points of 5 or 9	3 to 2	▪ Points of 5 or 9	2 to 3
▪ Points of 6 or 8	6 to 5	▪ Points of 6 or 8	5 to 6
Place Bet to Win		*Big Six or Big Eight*	1 to 1
▪ Points of 4 or 10	9 to 5		
▪ Points of 5 or 9	7 to 5		
▪ Points of 6 or 8	7 to 6		
		Hardways	
		▪ Hard 6 or Hard 8	9 to 1
		▪ Hard 4 or Hard 10	7 to 1

E.20

One Roll Bets

	Payout Odds
Field Bets	
▪ 3, 4, 9, 10, or 11	1 to 1
▪ 2 or 12, 2 to 1	
Proposition Bets	
▪ Any 7	4 to 1
▪ Any Craps	7 to 1
▪ 2 or 12	30 to 1
▪ 3 or 11	15 to 1
Horn Bets	
▪ 2 or 12	30 to 1
▪ 3 or 11	15 to 1
Horn High Bets	
▪ 2 or 12	12 to 1
▪ 3 or 11	6 to 1

Blackjack or Twenty-One

Method of Play

E.21 The object of blackjack (twenty-one) is to draw cards that total as close to 21 as possible without going over, while beating the dealer's hand. To begin the game, each player places his bet before being dealt any cards. The dealer then deals two cards to each player. He deals himself one card up and the other face down. When the total value of a hand is added up, the king, queen, and jack each count as 10. The ace counts as either one or eleven, and all other cards equal their face values.

E. 22 If a player has an ace with a 10, jack, queen, or king, he has *blackjack*—a natural 21 total—and is paid 3 to 2 (three dollars paid for each two-dollar bet). If the dealer also has blackjack, it is called a *push,* and the player neither wins nor loses.

E. 23 If the player does not have blackjack, the player may elect to *stand* (not accept any more cards) or be *hit* (accept more cards from the dealer to get closer to 21). The player may be hit with as many cards as he likes (one at a time), but if his card total exceeds 21, he has *busted*, and the dealer collects his bet. When the player believes he is as close to 21 as he can get without going over, he stands.

E.24 When all players at the table have either busted or decided to stand, the dealer's facedown card is turned up. If the dealer's card count is 16 or less, he must draw cards to get closer to 21. If the dealer's card count is 17 or more, he cannot draw more cards except in some jurisdictions, where he may draw if he has a *soft* 17 (a hand that can be totaled either 7 or 17, for example, a 6 with an ace).

E.25 When the dealer has either busted or is standing on the total of his hand, he totals the cards of each player's hand. He pays off, at even money, bets of the players whose hands are closer to 21 than his, and he collects bets from those players whose hands are farther from 21 than his. If the dealer busts, he pays off, at even money, each player that hasn't busted. If a player's total is the same as the dealer's (and adds up to 21 or less), it is a push, and he neither wins nor loses.

Special Terminology

E.26 *Splitting pairs.* If a player's first two cards are a pair, or each has a value of 10, he may split them into two hands provided that the bet on the second hand equals his original bet. Once the hands are split and the wager placed, he plays the first hand and then he plays the second hand. If the split pair is aces, the player is limited to a one-card draw on each hand.

E.27 *Doubling down.* If a player's first two cards total 10 or 11, he may elect to wager an additional amount that cannot exceed the value of the original bet. If the player doubles down, he draws only one additional card.

E.28 *nsurance.* If the dealer's up card is an ace, a player may elect to *take insurance* by placing, on the insurance line, a bet not greater than one-half of his original bet. The insurance bet is a wager that the dealer has blackjack. Insurance bets pay 2 to 1 if the dealer has blackjack, but they lose in all other instances. The dealer collects all losing insurance wagers before he deals additional cards.

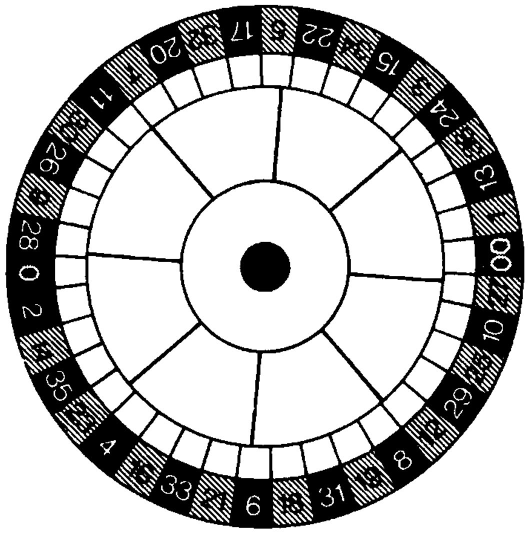
E.29 *Surrender.* After a player receives his first two cards, he may elect to surrender one-half of his wager, along with his hand, if he does not wish to continue to play the hand.

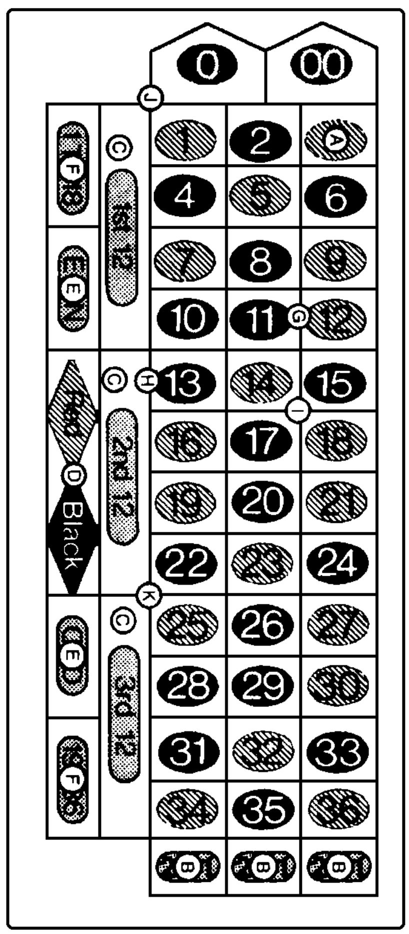
Roulette

E.30 A roulette wheel is numbered from 1–36 and also has 0 and 00 (although in some jurisdictions, roulette may be played without a 00). The numbers are alternately colored red and black except 0 and 00, which are green. The roulette layout, located on the table next to the wheel, is numbered and colored in the same way as the wheel is.

E.31 Even-money bets (bets that pay 1 to 1) may be made on the colors red or black, odd or even numbers, and high or low numbers (the ranges of 1–18 or 19–36). Bets on just one number pay 35 to 1. In roulette, a player may make bets covering more than one number. For example, a bet covering two numbers (called a *split bet*) pays 17 to 1. Bets are made by placing chips (usually nonvalue chips, that is, chips bearing no face value but having a value assigned when issued to the customer in exchange for cash or credit) on the desired number or color on the layout.

E.32





E.33 The dealer spins the wheel and rolls a small white ball in the opposite direction. Bets may still be made after the wheel is spinning and up to the time that the dealer says, "No more bets." When the ball comes to rest, the dealer points out the winning number, and winning bets are paid. The exact placement of the chip(s) determines each bet being made.

E.34 The positions of the bets are indicated in the foregoing illustration by corresponding letters. Examples of the payout odds are as follows:

Roulette Straight Bets

E.35

Example position	Type of bet	Pays off if ball comes to rest on	Odds
A	Straight Up	The individual number bet, including 0 and 00	35 to 1
B	Column	Any of the 12 numbers in the column bet	2 to 1
C	Dozen	Any number in the range 1–12, 13–24, or 25–36, depending on which dozen is bet	2 to 1
D	Red or Black	Any number of the same color that was bet	1 to 1
E	Odd or Even	Any odd number for odd bet, even number for even bet	1 to 1
F	1–18 or 19–36	Any number in the range bet	1 to 1

Roulette Combination Bets

E.36

Example position	Type of bet	Pays off if ball comes to rest on	Odds
G	Split	Either of the two numbers bet	17 to 1
H	Row	Any of the three numbers in the row bet	11 to 1
I	Corner	Any of the four numbers forming the corners	8 to 1
J	Five numbers	0, 00, 1, 2, or 3	6 to 1
K	Six numbers	Any of the six numbers in the two rows bet	5 to 1

Wheel of Fortune, or Big Six

E.37 The wheel has positions on it marked by bills in denominations from one dollar to twenty dollars. Two extra positions are marked with special symbols that indicate the largest payoffs. Adjacent to the wheel is a layout that represents the dollar denominations on the wheel.

E.38 To place a bet, a player puts the amount he wants to wager on a spot on the layout that corresponds to a denomination on the wheel. The larger the bill on which he wagers, the higher the odds because there are less bills of the higher denomination. After all bets have been placed, the dealer spins the wheel. No bets can be placed after the wheel begins to spin. The winning bets are paid after the wheel stops on a position indicated by the *flapper* at the top of the wheel. The payout odds are as follows:

A Bet On	Pays
$1	1 to 1
$2	2 to 1
$5	5 to 1
$10	10 to 1
$20	20 to 1
Joker	40 to 1
Flag	40 to 1

Baccarat

E.39 The object of baccarat is to obtain cards that total as close as possible to 9. All cards count as face values, that is, ace is counted as 1, and deuce is 2, and so on. All 10s and face cards, or any combination of 10, have no value. For example, 9 + 5 = 4; 10 + 1 + 3 = 4.

E.40 To begin the game, two cards are dealt from a *shoe* to each of two hands, one of which is called *Player,* and the other, *Banker.* Customers may bet on either hand. If the point count of either hand is an 8 or 9, it is a *natural*, and no cards are drawn.

E.41 If neither hand is a natural, the following rules are always observed:

- Player draws a third card when his first two cards total 0, 1, 2, 3, 4, or 5; he stands when his first two cards total 6 or 7.
- If Player's first two cards total 6 or 7 (and Player stands), Banker draws a third card when his first two cards total 0, 1, 2, 3, 4, or 5; he stands when his first two cards total 6 or 7.
- If Player draws a third card, Banker follows these rules:

Having	Draws when Player's third card is:	Does not draw when Player's third card is
3	1,2,3,4,5,6,7,9,0	8
4	2,3,4,5,6,7	1,8,9,0
5	4,5,6,7	1,2,3,8,9,0
6	6,7	1,2,3,4,5,8,9,0
7	STANDS	

E.42 The only decision that a customer makes is what to bet on and how much to bet. If both hands end in equal totals, it is a tie, and neither hand wins or loses. A separate tie bet pays 8 to 1. The house generally collects a 5 percent commission on all money won on Banker's side. These commissions are paid after the shoe has been dealt.

E.43 *Mini baccarat* has the same rules as baccarat, but it is played on a smaller table. The table is approximately the size of a blackjack table, and the layout is half of that on a baccarat table.

Let It Ride

E.44 Let It Ride is similar to poker, except the player is not playing against the dealer or the other players. The object of the game is to get the best poker hand possible by using their three cards and the dealer's two community cards.

E.45 Each player makes three bets of equal amounts and receives three cards. The dealer deals two "community cards" face down. Looking at their three dealt cards, the player can ask for one of their bets back or "Let It Ride." The dealer then turns the first "community" card over. The player can again ask for their second bet back or "Let It Ride." A player will always have at least one of their three bets at risk in each hand. The dealer turns over the last community card, and the winning hands are paid out.
The payout schedule may vary, but a sample is as follows:

Hand	Payout
Royal Flush	1000 to 1
Straight Flush	200 to 1
Four of a Kind	50 to 1
Full House	11 to 1
Flush	8 to 1
Straight	5 to 1
Three of a Kind	3 to 1
Two Pair	2 to 1
Pair of 10s or better	1 to 1

Caribbean Stud

E.46 Caribbean Stud Poker is based on five-card stud poker. Each player antes with the option of playing for a progressive jackpot and receives five cards face down. The dealer gets five cards with one card face up. The players examine their hands and decide whether to make an additional bet, doubling their ante, or fold, losing their ante.

E.47 To qualify and continue playing, the dealer must have an Ace/King or better. If the dealer does not qualify, the player automatically wins the ante.

E.48 Winning hands are paid out with the following representing a standard payout schedule:

Hand	Payout
Royal Flush	100 to 1
Straight Flush	50 to 1

Four of a Kind	20 to 1
Full House	7 to 1
Flush	5 to 1
Straight	4 to 1
Three of a Kind	3 to 1
Two Pair	2 to 1
Pair of 10s or better	1 to 1

E.49 If the player elects to play for the progressive jackpot, a $1 gaming chip is placed into the acceptor box in front of them. The player qualifies for the jackpot if they have one of the five hands listed below, regardless of what the dealer has. Payouts are fixed amounts for the lower hands and percentages of the progressive jackpot for the higher hands.

Hand	Payout
Royal Flush	100%
Straight Flush	10%
Four of a Kind	$500
Full House	$100
Flush	$50

Three Card Poker

E.50 Three Card Poker is played similar to poker, except each player receives three cards. At the start of the game, each player makes two bets. Three cards are dealt to each player, and three cards are dealt to the dealer.

E.51 The first wager is called a "Pair Plus." The bet wins with a pair or better hand. Winning bets are paid by the following schedule:

Hand	Payout
Pair	1 to 1
Flush	3 to 1
Straight	6 to 1
Three of a Kind	30 to 1
Straight Flush	40 to 1

E.52 The second wager is called the *ante* and is used to play against the dealer. The object is to get a better hand than the dealer. To qualify, the dealer must have Queen or better. After seeing his cards, the player can choose to play against the unknown dealer hand by making a "play" bet equal to the ante. If the dealer does not qualify, the player wins the ante only. If the dealer qualifies, the player has to beat the dealer to win the ante and the "play" bet. If the player has a better hand than the dealer, the player is paid even money and a bonus using the following schedule.

Hand	Payout
Straight	1 to 1
Three of a Kind	4 to 1
Straight Flush	5 to 1

Spanish 21

E.53 Spanish 21 is played like regular black jack, except using "Spanish" decks, which have no 10s or Aces. The payouts are as follows:

Hand	Payout
Player's blackjack beats dealer's blackjack	3 to 2
Player's 21 beats dealer's 21	Up to 3 to 1
Double Down with two or more cards of any total	
Double Down Rescue – if the player isn't satisfied with his or her nonbusted hand, he or she may take back the doubled portion of the bet and forfeit the original wager.	
5 card 21	3 to 2
6 card 21	2 to 1
7+ card 21	3 to 1
6-7-8 mixed suits	3 to 2
6-7-8 suited	2 to 1
6-7-8 spaded	3 to 1
7-7-7 mixed suits	3 to 2
7-7-7 suited	2 to 1
7-7-7 spaded	3 to 1
7-7-7 suited and dealer's upcard is any 7	
$5 to $24 bet	$1000
$25 bet	$5000

Casino War

E.54 The player makes an initial wager. One card is dealt to the player, and one card is dealt to the dealer. The highest card wins and is paid at 1 to 1. A tie wager is also an option and is paid at 10 to 1.

E.55 If the player's card is the same amount as the dealer's card, the player has the option to "War" with the "house." The player makes an additional wager equal to the original wager. Three cards are burned for both the player and the dealer, and one additional card is dealt. The highest card wins the "War." If the player wins the "War," he is only paid the amount equal to the original wager.

E.56 For example, assume the player makes an original bet of $5 and ties the dealer.

He then places another $5 bet for a total of $10. If the player wins the "War," he is only paid $5.

Pai Gow Poker

E.57 Pai Gow Poker uses a standard deck of cards plus one joker. The joker is used only as an Ace or to complete a straight, flush, or straight flush. The object of the game is to have both the high hand and the low hand be higher than the banker's hands (who is not necessarily the dealer). A banker is chosen by rolling a pair of dice and counting counterclockwise from the dealer. The banker is always a 1, 8, or 15. If the player refuses to be the banker, the banker will be played by the house. A player may become the banker if he or she has enough money to cover all bets on the table. A player may also elect to be a partial banker and only needs to be able to cover half of the total bets on the table.

E.58 To begin, dice are rolled to determine which player will receive the first set of cards. Each player receives seven cards and creates two hands, one with five cards, the high hand, and the other with two cards, the low hand. The dealer then sets the house's or banker's hand. Poker hand rankings are used to win. To win, both hands must be higher than the banker's respective hands. If both hands are lower than banker's hands, the player loses. If one hand is higher and one is lower than the banker's respective hands, the game is a "push," and no money changes hands. The only requirement to this game is that the low hand must only consist of two cards and must be lower than the high hand. The dealer handles all bets and retains a 5 percent commission on all winning bets.

E.59 The following is the Pai Gow Poker hand rankings:

- Five Aces (including joker)
- Royal Flush
- Straight Flush
- Four of a Kind
- Full House
- Flush
- Straight (A, 2, 3, 4, 5 is the second highest straight)
- Three of a Kind
- Two Pair
- Pair

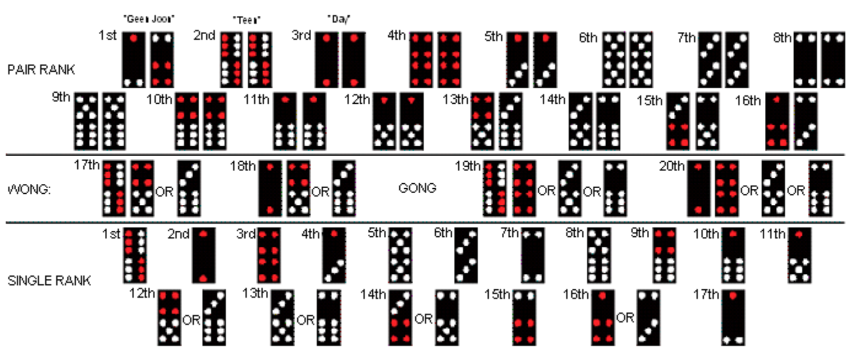
Pai Gow Tiles

E.60 Pai Gow Tiles is an Asian game using dominoes, or tiles. The object of the game is to have both the high hand and the low hand be higher than the banker's hands (who is not necessarily the dealer). A banker is chosen by rolling a pair of dice and counting counterclockwise from the dealer. A player may become the banker if he or she has enough money to cover all bets on the table. A player may also elect to be a partial banker and only needs to be able to cover half of the total bets on the table.

E.61 To begin, dice are rolled to determine which player will receive the first set of dominoes. The dominoes are placed in eight stacks of four and are positioned at every seat at the table, including the vacant seats, so that each player received four dominoes. To win, both hands must be higher than the banker's respective hands. If both hands are lower than banker's hands, the player loses. If one hand is higher and one is lower than the banker's respective hands, the game is a "push," and no money changes hands. If the player and the banker have two hands totaling the same number, the hand with the highest single domino wins. The banker wins all identical hands. Payoffs are even money. The dealer handles all bets and retains a 5 percent commission on all winning bets.

E.62 The highest hand is called a "Bo," or pair. However, a pair doesn't necessarily mean two identical dominoes. The next highest hand is called a "Wong," which is the nine domino together with the 2 or 12 domino. The "Gong" is the next highest hand, which is the eight domino together with the 2 or 12 domino. If none of these combinations can be made, the player must arrange the two dominoes to get as close to nine as possible by summing them and using the last digit. For example, if the sum is 16, the 6 is counted. There are two wild dominoes, the 3 and the 6, which can be counted as either a 3 or a 6. Together, they make the highest hand, called the "Gee Joon."

E.63 The following chart shows the possible hands from highest to lowest:



Red Dog

E.64 Red Dog is a card game where the player bets on the spread between two cards. To play, the player makes an initial wager, and the dealer deals two cards, face up. If the third card falls between the first two cards, the player wins. If it doesn't, the player loses. The player can also bet on the spread. This is called a "raise" bet. Opening bets are paid out at even money. "Raise" bets are paid out using the following schedule:

Spread	**Payout**
1	5 to 1
2	4 to 1
3	2 to 1
4–11	1 to 1

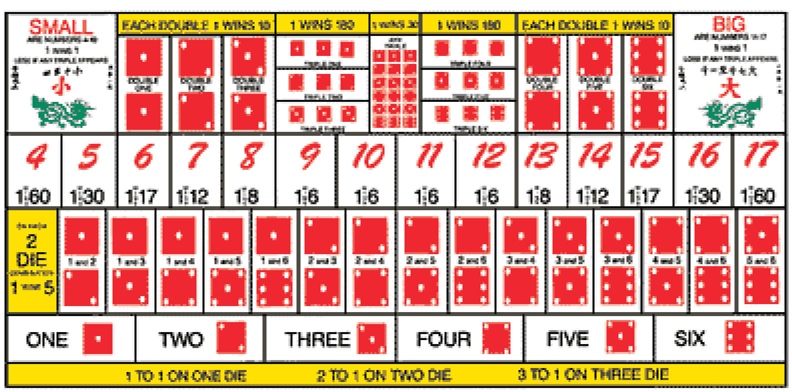
E.65 If the first two cards dealt are consecutive, the game is tied, and the player keeps his original bet. If the first two cards are the same, betting stops. If the third card makes it three of a kind, the player is paid at 11 to 1. If the third card does not make it three of a kind, the player loses.

Sic Bo

E.66 Sic Bo is a dice game with an Asian origin. Essentially, players can place multiple bets on various outcomes, totals, and combinations of rolling three dice. Payouts are listed as the following:

Sic Bo Payout Odds			
Wager	Payout odds	Wager	Payout odds
Three of a kind	180 to 1	Total value of 11	6 to 1
Two of a kind	10 to 1	Total value of 12	6 to 1
Any three of a kind	30 to 1	Total value of 13	8 to 1
Total value of 4	60 to 1	Total value of 14	12 to 1
Total value of 5	30 to 1	Total value of 15	17 to 1
Total value of 6	17 to 1	Total value of 16	30 to 1
Total value of 7	12 to 1	Total value of 17	60 to 1
Total value of 8	8 to 1	Small bet	1 to 1
Total value of 9	6 to 1	Big bet	1 to 1
Total value of 10	6 to 1	One of a kind	1 to 1

Sic Bo Table



Keno

E.67 A keno ticket is numbered from 1–80. These numbers correspond to 80 numbered Ping-Pong-like balls contained in a special holding unit. The player marks from 1–20 numbers on the ticket and the amount of the wager. As the game begins, the balls are mixed in the holding unit, called a *squirrel cage,* and then, one at a time, they are "thrown" by the machine into another holder, called *rabbit ears.* Twenty balls go into the keno holder. A keno *writer* calls the winning numbers over a loudspeaker and lights up the corresponding numbers on displayed keno boards. Winning wagers are determined by how many numbers on the player's ticket match those lighted up on the boards. A keno *payout schedule* lists the number of matching numbers—catches—the player needs to make in order to win.

E.68 A keno game in which the winning numbers are selected by a random number generator software program and not with rabbit ears is called a **Random number generator (RNG)** game.

Race and Sports Books

Race Book

E.69 Betting in a race book can be conducted using the pari-mutuel method of wagering or the non-pari-mutuel method. Race books will have literature (house rules) to inform the patron of, among other things, the types of wagers that are accepted for each race at each track.

- **Pari-mutuel method.** Wagers in the race book are commingled with the pari-mutuel betting pools at the race track. The patron's wager affects the wagering odds at the track. Patron winning wagers are paid at full track odds by the race book acting as the track's agent. The race book has no risk of loss with pari-mutuel wagering. The book is guaranteed a percentage commission for each bet taken.
- **Non-pari-mutuel method**. Wagers are not commingled with the pari-mutuel betting pools at the race track. The race book is booking the patron's wager and risking its bankroll. The race book bases its payouts on the track's prices; therefore, the race book may set limits on payouts to protect themselves from very large winning tickets. Example: Assume a race book's house rules state that exacta payouts will be paid at a maximum of 250 to 1. If the patron placed a $2 bet on an exacta in the race book and the payout at the race track was $750, the book will only pay the patron $502 due to the payout limit.

Types of Wagers

E.70 There are various types of race book wages, such as the following:

- *Win.* Horse must finish first to collect.

- *Place.* Horse must finish first or second to collect (If horse wins the race, patron receives place price not the win price).
- *Show.* Horse must finish first, second, or third to collect (If horse comes in first or second, patron receives the show price not the win or place price).
- *Daily Double.* Winning horses must be selected in two consecutive races to collect.
- *Exacta/Perfecta.* The first two finishing horses in the exact order must be selected to collect.
- *Quinella.* The first two finishing horses in either order must be selected to collect.
- *Trifecta.* The first three finishing horses in the exact order must be selected to collect.
- *Superfecta.* The first four finishing horses in the exact order must be selected to collect.
- *Pick Three, Pick Four, etc.* To win a Pick Three wager, the winners of three consecutive races must be selected. The track will designate which races will be subject to Pick Three wagering. The same basic principle applies to Pick Four wagering, Pick Five, and so on.
- *Parlay.* Series of two or more selections in separate races in which the wager on the first race plus its winnings are then risked on each of the remaining, selected races. (The win amount of the first horse bet becomes the wager on the second horse bet and so on.) The patron can choose from any race and any track, as well as a combination of win, place, or show wagers. If one horse in the parlay fails to finish as high as wagered, the entire wager is considered a loser. In the event a horse is scratched (does not run), a three-horse parlay is reduced to a two-horse parlay, and a two-horse parlay becomes a straight bet.
- *Future book wager.* Wagers taken on major horse racing events such as the Kentucky Derby and Breeder's Cup Classic prior to the day of the race. For these types of wagers, the patron receives fixed wagering odds at the time the wager is made and if the horse does not run the race, the patron's wager is considered a losing wager rather than a refund.
- *Horse match up wager.* Wager that matches one horse against another in a race, and the winner is determined by which horse finishes ahead of the other.

Sports Book

E.71 Wagers in the sports book can be made on various types of sporting events. The following are some different types of wagers on the most common types of sporting events:

Football

E.72 There are various types of wagering in football, such as the following:

- *"Point line" wager.* A wager on the winner of a football game where one team is giving another team a certain amount of points in an attempt to equalize the two teams. Example: Steelers are the favorite at -7 points against the underdog Browns at +7 points. If the patron places a wager on the Steelers, the Steelers would have to win the game by more than 7 points in order for the patron to win the bet. If the patron places a wager on the Browns, the Browns would have to either win the game or else lose by less than 7 points in order for the patron to win the bet. Should the Steelers win by exactly 7 points, the game would be classified as a tie, and all wagers on both teams would be refunded. Generally, for all point line wagers, the wager to payoff ratio is 11 to 10. For example, a winning $110 wager will pay $100 plus the original wager, for a total of $210.
- *"Total" wager.* A wager where the patron will bet that the total combined final score of both teams will either be over or under a number determined by the sports book. Example: The over/under total of the Steelers/Browns game is set at 47. Assume the final score of the game is Steelers, 23 and the Browns, 10. The total combined score for both teams is 33. Patrons wagering on the under would win their bet, while those betting on the over would lose. Should the total points scored fall exactly on 47 points, the wager would be classified as a tie, and all wagers on both the over and the under would be refunded. Generally, winning "total" wagers will be paid with a wager to pay-off ratio of 11 to 10.
- *"Money line" wager.* A wager on the winner of a football game where no point spread is used for either team; however; there are betting odds assigned to both teams. Example: The favored Steelers are -200 betting odds to win against the underdog Browns, who are listed as +180. If the patron bet the Steelers to win the game, he would wager $200 to win $100, for a total of $300. If the patron bet the Browns to win the game, he would wager $100 to win $180, for a total of $280.)
- *Parlay wager.* A wager in which the patron combines two or more point line wagers, total wagers, or money line wagers in a single wager. All included wagers in the parlay must win in order for the patron to collect. In the event of a tie or cancellation of any game or total the parlay is reduced to the next betting bracket (for example, a three-team parlay is reduced to a two-team parlay, a two-team parlay becomes a straight bet). Different sports books have different standard payouts for their different parlay offerings. Example: Sports book parlay payout odds for two-team/total parlay is listed as 13 to 5. A patron wagers a $10 parlay wager on Steelers -7 and under 47 in the Steelers/Browns game. If the Steelers win the game 23 to 10, the patron wins $26, and the patron would receive a total of $36 ($26 for the win and $10 return of his bet).

- *Teaser wager*. A wager that allows the patron to adjust the listed point spread by 6, 6.5, or 7 points. The patron must choose between two or more teams. All teams selected in a teaser combination must win by a margin as adjusted by the teaser point spread. In the event of a tie or cancellation of any game, the teaser is reduced to the next betting bracket (for example, a three-team teaser is reduced to a two-team teaser, a two-team teaser involving a tie wager is considered no action, and money is refunded.) Example: A patron wagers a $12 two-team, 6- point teaser on the favorite Steelers at -1 (actual point spread -7) in game #1 and the underdog Broncos at +13 (actual point spread +7) in game #2. If both the Steelers and Broncos win their games by 3 points, the patron wins his bet and wins $10 for a total payoff of $22 (assuming the book uses a 12/10 payoff ratio for teaser bets).

Basketball

E.73 There are various types of wagering in basketball, such as the following:

- *Point line wager*. See football point line wager.
- *Total wager*. See football total wager.
- *Money line wager*. See football money line wager.
- *Parlay wager*. See football parlay wager. Sports books may have different standard parlay pay-off prices for basketball and football.
- *Teaser wager*. See football teaser wager. In basketball, the teaser point spread may be adjusted by four points.

Baseball

E.74 There are various types of wagering in baseball, such as the following:

- *Money line wager*. See football money line wager. In addition to betting on a team to win a baseball game, the patron may condition his bet on a specific pitcher winning the game (listed pitcher). If a patron lists a pitcher and that pitcher does not start the game, the patron will be refunded his wager. The following are a list of baseball money line wagers:
- — Team vs. Team
- — Listed Pitcher vs. Listed Pitcher (that is, both pitchers must start)
- — Team vs. Listed Pitcher (that is, listed pitcher from specified team must start against any pitcher from the other team)
- *Total wager*. See football total wager. In order to have a live wager, both listed starting pitchers must start the game, and the game must go at least 9 innings or 8 ½ innings with the home team winning, otherwise the wager will be considered no action.

- *Parlay wager*. See football money line parlay wager.
- *Run line wager*. See football point line wager; however, wagering odds may not be $11 to win $10. Each sports book will have its own wagering odds posted for this type of wager. In addition, in order to have a live wager, both listed starting pitchers must start the game, and the game must go at least 9 innings or 8 ½ innings with the home team winning, otherwise the wager will be considered no action.

Hockey

E.75 There are various types of wagering in hockey, such as the following:

- *Money line wager*. See football money line wager.
- *Total wager*. See football total wager.
- *Parlay wager*. See football money line parlay wager.
- *Goal line wager*. See football point line wager; however, wagering odds may not be $11 to win $10. Each sports book will have its own wagering odds posted for this type of wager.

E.76 A *Parlay card wager* is a wager where a patron can select three or more point line or total type wagers off a standardize card issued by the sports book. The point line spreads and total wager numbers do not change once the card is printed and released to the public. The cards are issued by the sports book either on a daily or weekly basis with the payout schedule and rules listed on the back of the card.

E.77 A *Future book wager* is a wager taken on sporting event championships, such as the Super Bowl, World Series, NBA Championship, Stanley Cup, and other major sporting events prior to the day of the race. Sports books will create betting odds for the winner of these events.

E.78 A *Proposition wager* is a wager that is created to entice additional wagering on a sporting event. Example: In the Super Bowl, a wager can be made on which team will win the coin flip. These wagers can be set up as a point line wager, total wager, or money line wager.

E.79 Sports books will also provide wagering on other sporting events such as golf, NASCAR, and soccer, for example, utilizing the different types of wagers previously described.

Poker

E.80 There are numerous variations of poker, with several common games described in the following text. Poker is unique among casino games in that the customer is wagering against other customers instead of the house. The gaming entity makes money by taking a percentage of each game's wagers, known as the *rake* (which may also be charged based on time). For poker tournaments, the casino charges an entry fee above and beyond the amount added to the prize pool.

E.81 Winning poker hands are as follows, in order of superiority:

- Royal Flush—A, K, Q, J, 10 in the same suit
- Straight Flush—any straight in the same suit
- Four of a Kind—four cards of the same number (4, 4, 4, 4)
- Full House—three cards of one number and two of another (7, 7, 7, 2, 2)
- Straight—5 consecutive cards of mixed suits
- Flush—5 card of the same suit
- Three of a Kind—three cards of the same number (K, K, K)
- Two pair—two pairs of cards with the same numbers (2, 2, 3, 3)
- Pair—one pair of cards of the same number (3, 3)

General Poker Terms

E.82 The following are some commonly used general poker terms:

- **Ante.** Initial bet before any cards have been dealt.
- **Bad beat pot.** A progressive payout in poker or other card games, which is awarded when a patron holding a specified minimum hand loses to another patron with a higher hand.
- **Check.** Pass on a bet if no one else has placed a bet.
- **Fold.** To quit the current game and discard all of one's cards.
- **Open.** The first bet after the first hand has been dealt.
- **Raise.** To increase a bet, a player must "see" a bet before he can raise it.
- **See.** To match a bet.

Five Card Draw

E.83 To begin the game, each player places an ante bet. The dealer deals each player five cards, face down. After looking at their cards, the players may make additional bets based on what they have or may fold. Then, each player will choose to either keep the cards that he or she has or to discard ones that he can't use. A player can discard up to 3 cards, and all discarded cards are placed face down on the table. The dealer deals 0–3 new cards to each player, and the players bet again based on what they have. Once the betting has stopped, each player shows his cards, and the winner takes the pot.

Texas Hold'em

E.84 In Texas Hold'em, each player is trying to make the best poker hand possible using a combination of his or her two cards and five community cards. The betting amounts are fixed at a limit (unless being played in a "no-limit" format). All bets and raises during the first two betting rounds are fixed to a minimum bet. All bets and raises during the last two betting rounds are fixed at the maximum bet. These limits are set by each individual house.

E.85 Play starts to the left of the "dealer" (the dealer position rotates around the table after each hand), with two forced bets, the *small blind* (usually half of the low limit bet) and the *big blind* (usually the amount of the low limit bet). Then, the first two cards for each player are dealt face down, and the first round of betting begins. Each player will either "see" or "raise" the low limit bet or will "fold."

E.86 Next, three "community" cards (the flop) are dealt face up on the table, and another round of betting takes place. A fourth "community" card (the turn card) is dealt face up followed by another round of betting. Finally, a fifth "community card" (the river card) is dealt face up with the final round of betting. Using any combination of the player's two cards and the five community cards, each player makes the best five-card hand possible.

7 Card Stud Poker

E.87 In 7 Card Stud, each player receives seven cards and tries to make the highest poker hand possible (using 5 cards). Betting limits are fixed to a low and high amount (unless being played in a "no-limit" format). To begin, each player puts in an *ante* (amount determined by the house), and is dealt two cards face down and one card face up. The lowest card makes the first bet equal to the low limit, and each player will either check, see, raise, or fold. All raises are made at the low limit.

E.88 The fourth card is dealt face up to each player, and the highest hand showing will have the opportunity to place the first bet. Once again, all raises are fixed at the low limit.

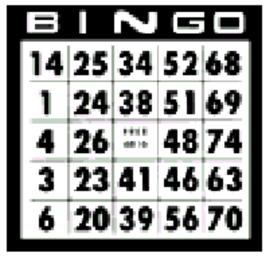
E.89 The fifth and sixth cards are dealt face up, each with its own round of betting, starting with the highest hand showing. These bets are made at the high limit and raises are fixed at the high limit.

E.90 The final card is dealt face down to each player, and the final round of betting is made at the high limit. Once all betting has stopped, those still in the game will show their hands, and the highest hand wins the pot.

Bingo

E.91 To play bingo, a player will purchase a card with a 5x5 grid and the letters B-I-N-G-O on the respective columns. Each card in a series is individually numbered. Each box has a number, except for the middle box, which is a free space. The numbers assigned to each row are as follows:

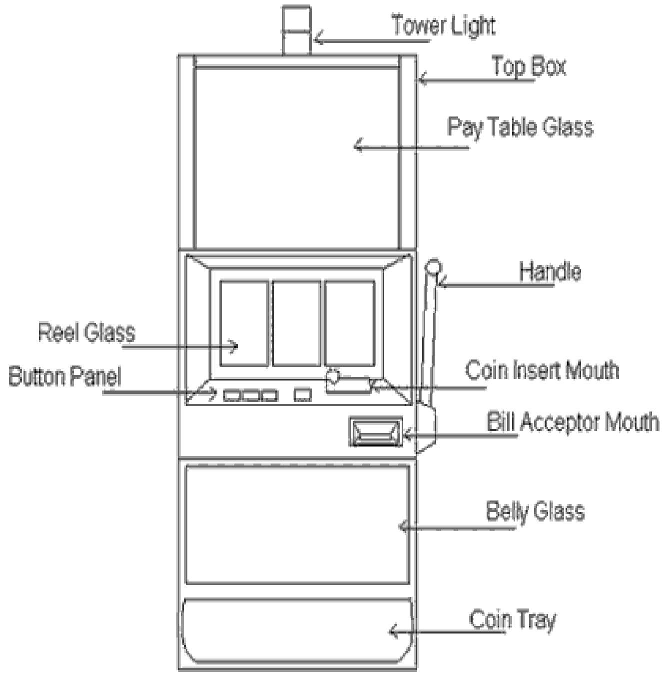
B	-	1–15
I	-	16–30
N	-	31–45
G	-	46–60
O	-	61–75



E.92 Numbers, such as B-2 and I-24, are chosen at random until a player has filled a line with five numbers either horizontally, vertically, or diagonally. The first player to fill a line with five numbers wins the game and the established winning prize. Variations exist whereby different winning patterns or designs are established (that is, achieve the letter "M," "cover all," fill two lines with 5 numbers, and so forth). The first player to achieve the desired pattern or design wins the established prize.

Slot Machines

E.93 The following diagram is a depiction of a typical slot machine:



Kinds of Slot Machines

E.94 The three most common kinds of spinning reel slot machines are mechanical, electronic stepper, and electronic video.

E.95 Mechanical machines operate independently on a stand-alone basis. They typically are controlled by a motion of ***reels***[1] and have predetermined prize amounts that are unaffected by the level of play. Mechanical machines tend to be more susceptible to manipulation by use of gadgets and other nonsophisticated, homemade instrumentation than are machines utilizing modern technology. Accordingly, mechanical machines are more susceptible to patron cheating than are machines utilizing modern technology.

E.96 Electronic stepper machines are controlled by a central computer (or an internal computer) and use random number generators and other control programs to determine which ***symbols*** appear in the reel glass on the ***payline***.

E.97 Electronic video machines operate the same as electronic stepper machines, except that electronic video machines display symbols using a video monitor rather than through spinning reels. These machines, at times, will offer games that simulate casino games,

[1] Terms that appear in the glossary are set in ***boldfaced italic type*** the first time they appear.

such as craps, poker, blackjack, and keno. The rules for the electronic games are typically the same as those for their casino counterparts.

The Inner Workings of an Electronic Slot Machine

E.98 Functionally, electronic slot machines operate as follows:[2]

- The player pulls the handle (or taps the "spin" button on the button panel).
- The computer generates a set of numbers, which correspond to the number of reels, from the random number generator.
- The computer divides the first number by a predetermined number of positions (referred to as *stops*) on a virtual reel.
- The remainder then corresponds to a specific stop on the virtual reel.
- Each stop on the virtual reel corresponds to a stop on the physical reel.
- The computer moves the physical reel to the appropriate stop, thus signaling to the player the result of that particular spin.

E.99 Slot machines are available in a variety of models and denominations. One or more monetary credits[3] may be played at a given time, depending upon the model of slot machine the player chooses. The player begins by wagering one or more monetary credits, which allows the handle to be pulled (or the button to be pressed, which simulates a handle pull). The pull of the handle starts a series of reels spinning. Each reel has a number of symbols or numbers on it. The appearance of certain symbols, the number of symbols, the combination of symbols, and the sequence of symbols determine whether various jackpots are won (*hit*). Different machines may have different winning combinations, with the winning combinations and resulting jackpots depicted on visual displays on each machine. The frequency of jackpot payouts is random, but over the long run, predetermined by the theoretical ***payout percentage*** programmed into the machine.

E.100 In multiple credit machines, additional monetary credits provide more opportunities to win or larger payouts with each handle pull. For example, each additional credit may provide an additional line of symbols to match up a winning combination, "buy" additional symbol combinations, or increase the payout for each combination.

E.101 Some winning combinations are paid automatically by the machine, while others

[2] This description is in the context of electronic machines. Mechanical slot machines rarely exist in today's environment. The accounting for jackpots is unaffected by whether the machine is mechanical or electronic.

[3] Monetary credits may be played by using bills, coins, tickets, electronic wagering credits recorded on cards, or by other means.

(larger dollar amounts) require a slot attendant to pay off the jackpot. A light on top of the machines (referred to as a ***candle*** or ***tower light***) signals a slot attendant when his or her assistance is necessary for a payout. Additional credits can not be played until the machine or the slot attendant has completed the payout.

Determining Jackpots

E.102 A nonprogressive jackpot is a jackpot that is limited to a given machine and is independent of other machines on the casino floor. A nonprogressive jackpot pays out a fixed amount that is predetermined and is depicted on the pay table on the machine. Increasing the number of credits played typically increases the amount of the jackpot.

E.103 A progressive jackpot is a type of jackpot that grows each time a player bets. There are local area progressive and wide area progressive (WAP) jackpots. A local area progressive jackpot is a jackpot that is generated from a group of machines that are operated at a single location and connected by a linked network. The jackpot grows based on the play on those connected machines. A WAP jackpot is a jackpot generated from a group of machines that are operated at multiple locations and connected by a linked network. WAPs provide casino operators with the opportunity to offer patrons jackpots that typically are larger than jackpots paid on stand-alone machines and local area progressive jackpots.

E.104 The progressive jackpot amount starts at a specific base amount (***base progressive jackpot***) and grows "progressively" based on monetary credits played (***incremental progressive amount***). A portion of the monetary credits played through each machine in the network is added to the progressive jackpot. The progressive jackpot amount is displayed on meters on all machines in the network and increments until a patron wins the progressive jackpot amount, at which time the progressive jackpot amount is reset to the base and the process repeats.

E.105 The largest WAP jackpots typically are administered by entities independent of the gaming entities operators. Casino operators typically remit to the WAP administrator a percentage of the monetary credits played on the individual casino's machines for services related to maintaining and administrating the WAP system, including the payment of winners over an extended period of time after the jackpot win.

E.106 The payout percentage of a machine indicates what percentage of the money played through it will be returned to the players in the long run. For every slot machine except WAP, the casino is able to choose from the payout percentages that are preset by the manufacturer and typically range from one to five pay tables. The payout percentages must be above the legal minimum set by the governing jurisdiction. Not all slot machines on the floor are homogenous. Payout percentages vary from casino to casino and even from machine to machine within a particular casino. Payout percentages from casino to casino can vary widely. Casinos determine the mix of slot machines placed on their floor and payout percentages with an aim toward inducing the amount of volume and payouts that will result in the highest win. For example, an individual slot machine may have a payout percentage as high as 98 percent, and the slot machine next to it may have a payout percentage of 93 percent (assuming these two percentages are above the legal minimum set by the jurisdiction). A payout percentage of 98 percent does not mean that for every $100 of coin-in, the machine will payout exactly $98. In some jurisdictions, payout percentages on an aggregate basis are published for the customer to see.

E.107 Because the result of each spin is chosen at random, only over time will a machine's actual performance achieve the designed payout percentage. Some deviation from the machine's payout percentage is allowed and expected, but the deviation gets smaller as the number of spins played on a machine increases.

E.108 The following table shows the deviations expected. The expected deviation column is a range because each slot machine differs.

Number of spins	Expected deviation
1,000	30–45%
10,000	10–15%
100,000	3–5%
1,000,000	1–1.5%
10,000,000	0.3–0.5%

E.109 The expected deviation represents the amount by which the actual payout percentage on a slot machine will differ from its theoretical payout percentage after 10,000,000 spins, within a certain confidence level. Normally, the industry standard assumes a 90 percent confidence level, however, this percent could vary based on jurisdiction. For example, assuming 1,000 spins and a theoretical payout percentage of 90 percent, the actual payout could be between 45 percent and 135 percent (assuming the high end of the expected deviation in the above table). For 10,000,000 spins, the actual payout percentage could be between 89.5 percent and 90.5 percent. Because every combination is random, there are no absolute guarantees of exact payout percentages.

Server Based Gaming

E.110 The previous description of slot machine operations addresses conventional slot machines that operate independently from other machines in the casino. Each machine determines the outcome of a wager using control programs contained on erasable, programmable read-only memory (*EPROM*) installed in a secure manner within the device. Advances in server based gaming technology allow the slot machine to be interfaced with a system whereby the control programs within the slot machine can be modified to change the types of games being offered, denomination of the machines, and game themes. A slot machine that can be modified in this fashion is commonly known as a *system supported game*.

E.111 Another type of server based gaming technology allows the control programs to be stored on the computer system itself. When a wager is made, the determination of win or loss is made by the system with the outcome displayed on the slot machine. When configured in this manner, the slot machine simply becomes a display device with a ticket printer, *currency acceptor drop box*, and *bill validator*. Such system and display devices are collectively referred to as a *system based game*.

E.112 Although more sophisticated control programs, systems, and communication networks are required with server based gaming, the basic gaming revenue model for slot machine operations is still applicable.

Lotteries

E.113 State lotteries operate one or more of the following forms of lottery gaming:

- Lotto
- Instant games
- Video lottery terminals (VLT)

E.114 Lotto tickets are sold by an agent with ticket issuance/validation terminals, which are interfaced with the lottery's central computer via communication lines. Lotto tickets cost $1.00 per play in most cases. A ticket can be purchased for several different types of games. Super lotto type games typically require the patron to select six numbers, and these drawings are held twice a week. The prize pools are typically pari-mutuel in nature, with the maximum prize increasing with every ticket sold. *Daily game* tickets can also be purchased, where three, four, or five numbers must be selected, and the drawings take place once a day. Keno lottery tickets can also be purchased, and these games may be conducted as often as every four to five minutes. Super lotto ball drawing procedures are somewhat similar to procedures employed in a casino keno game, in that balls are selected from a ball drawing device. The number of balls in the device varies depending on the game and state regulations. The drawing is performed in a public venue and is typically televised, and many times will be monitored by an independent accountant. Many times, smaller payout games will use a computerized automated drawing device containing a random number generator. Winning tickets are validated by the agent, and the agent will make the smaller payments usually in amounts less than $600. Larger winning tickets are paid by the central lottery office. Most states allow the winner of multimillion dollar prizes to receive annuity payments over 20–25 years or receive an immediate cash option whereby the future annual payments are discounted using prevailing interest rates.

E.115 Lotteries create different types of instant game themes, and thousands of preprinted tickets are distributed to agents throughout the state. Based on instructions from the lottery, a certain number of tickets are printed by ticket manufacturers with varying payout amounts, with the balance being losing tickets. The tickets are numerically controlled and contain a hidden validation number. Cost of the tickets vary with the game played and may range from $1.00–$5.00. Patrons purchase instant tickets from the agents and scratch off the covering to determine whether the ticket is a winner. Winning tickets are paid after validation, with the larger winners also paid by the central lottery office.

E.116 Some states allow the operation of video lottery terminals, or VLTs. A VLT is similar in appearance to a slot machine, and each VLT typically will individually determine gambling wins or losses. VLTs accept currency or coin and normally do not pay out wins in coins—a ticket is printed which is redeemed by the agent operating the devices. VLTs are required to be connected to the lottery's centralized computer system, which is used to communicate auditing information from the VLTs such as wagers, payouts on winning wagers, and credits cashed to tickets. The lottery can also activate and deactivate VLTs from their offices.

Appendix F—Glossary

F.1 The following is a list of terms, each with a brief definition, used in the gaming industry. These terms may differ among gaming entities.

accountability. All items of currency, chips, coins, tokens, receivables, and customer deposits constituting the total amount for which the bankroll custodian is responsible at a given time.

bank (bankroll). The inventory of currency, coins, and chips in the casino cage, pit area, and slot booths and on the playing tables. Used to make change, pay winning bets, and pay slot machine jackpots. See also **casino bankroll**, **casino cage**, **slot booth**, **slot machine load**, and **table inventory**.

banked games. Activities in which a gaming entity participates in games of chance with a customer, with both the gaming entity and the customer having the chance to win or lose money or other items of economic value as a result of the game output. See also **gaming activities**.

base jackpot. The fixed, minimum amount of a slot machine payout for a specific combination.

base progressive jackpot. The initial dollar amount of a progressive jackpot when the progressive slot machine is first placed in service or when a progressive jackpot resets.

betting ticket. A printed, serially numbered form used to record the event upon which a wager is made, the amount and date of the wager, and sometimes the line or spread (odds). Used to record bets on sporting and racing events.

bill changer. A self-service device for use by customers that accepts currency and dispenses smaller denomination currency or coin, or both.

bill validator. The part of a currency acceptor that analyzes the legitimacy of currency and tickets as they are inserted in a slot machine to ensure the currency is not counterfeit.

blower. A device used in a keno or bingo game to mix the numbered balls and blow them individually into a receptacle when drawn.

booth cashier. An employee who is the custodian of a slot booth fund.

boxperson. The first level supervisor who is responsible for directly participating in and supervising the operation and conduct of the craps game.

breakopen. An instant win ticket on which the player tears open a flap to see if the ticket is a winner. Also called *pulltabs*. Breakopens are often sold by charities and occasionally by state lotteries.

buy-in. The amount of money a player must present to purchase chips in a poker or pan (panguingui) game. Usually put in a separate drop box by the dealer. See also **time buy-in**.

cage credit. Advances in the form of cash or gaming chips made to customers at the casino cage. Documented by the players signing an IOU or a marker similar to a counter check.

calibration module. The section of a weigh scale used to set the scale to convert the weight of coins counted into a specific dollar amount or number of coins counted. See also **weigh count**.

caller. The person who calls numbers as they are drawn in bingo or keno.

candle (tower light). The lighted column mounted on top of a slot machine used to indicate machine malfunctions, machine door openings, and the player's request for change.

cash count sheet. The form used to record the contents of the bankroll as they are counted.

cash loads. The initial currency, coins, chips, and tokens issued from the casino's bankroll to a gaming table or a coin operated gaming device.

cashier's count sheet (checkout sheet). An itemized list of the components that make up the cage accountability.

cashier's count sheet reconciliation. A detailed reconciliation of the beginning and ending cage accountability.

cashless wagering system. A computer network interfaced with games enabling wagering to take place with wagering vouchers and coupons or electronic wagering credits transferred to the games, only after the validity and value of the wagering instruments and credits have been confirmed by the system.

casino bankroll. The working fund of cash and gaming chips.

casino cage cashier. A custodian of casino bankroll in the cage. In some casinos, it may refer to the person in charge of the central banking function.

casino cage. A secure work area within the casino for cashiers and a storage area for the casino bankroll.

casino host. An executive in the casino who is responsible for having knowledge of the financial condition of important customers, including their gambling history and their payment reliability. Is usually responsible for expediting credit play for the better customers as well as arranging for complimentary services for such customers.

casino manager. The executive who has the authority and responsibility for all gaming operations.

change person. A person who has an imprest fund of coins and currency for making change for slot customers.

checkout sheet. See **cashier's count sheet**.

checks. Patron personal checks; also slang for *chips*.

chip float. The dollar value of chips held by customers.

chip run. A casino's transporting of foreign chips back to the casino of issuance for redemption.

chips. Money substitutes, in various denominations, issued by a gaming establishment and used for wagering. Gaming tables often have *tokens* and *plaques* in addition to chips. For simplicity, the term *chips*, as used in this guide, also include **tokens** and **plaques**.

closer. The original form on which a table inventory is recorded at the end of a shift.

coin in. The amount of coins put into, or wagered on, a slot machine by players.

coin operated gaming device. Any of a variety of mechanical or electronic apparatus used in connection with gaming. Includes slot machines and electronic video games such as poker, blackjack, craps, and keno. See **slot machine**.

complimentaries (comps). Promotional allowances to customers.

count. The total funds counted for a particular game, coin operated gaming device, shift, or other period.

counter check. A form provided by the casino for the customer to use in lieu of a personal check.

credit limit. The maximum dollar amount of credit assigned to a customer by the casino.

credit manager. The executive responsible for implementing the marker policies of a casino.

credit slip. A form used to record either (1) the return of chips from a gaming table to the casino cage or (2) the transfer of markers or negotiable checks from a gaming table to a casino cage or bankroll.

cross fill. The transfer of cash or chips from one gaming table to another or an even money transfer. (Usually prohibited by regulatory agencies.)

currency acceptor count. The counting of currency, vouchers, and coupons contained in a currency acceptor drop box.

currency acceptor drop box. A locked container within a slot machine that stores currency, vouchers, and coupons inserted into the machine through a bill validator.

currency acceptor. An electromechanical device contained in a slot machine that accepts paper currency, vouchers, or coupons in exchange for wagering credits.

customer deposits. The amounts placed with a casino cage cashier by customers for the customers' use at a future time, which are normally included with the casino's bankroll.

daily game. This can refer to any lottery game where winners are determined once a day, but usually refers to a numbers game such as the "Daily 3" or "Daily 4" games played in many states.

daily pit summary sheet. A log retained in the pit that reflects the amount of chips received from and transferred to the cage.

dead chips. See **promotional chips**.

dealer. An employee who conducts a game in a casino.

deskperson. An employee who authorizes payment on winning tickets and verifies payouts in keno.

discard tray. A tray, box, or specific area where cards used in a table game are held until shuffled.

discretionary programs. Discretionary incentives are offered to customers either (1) based on past levels of play or (2) to induce future play. In either case, prior to the incentive being offered to the customer, there is no obligation on the part of the gaming entity to provide the incentive through a loyalty program or otherwise.

diverter. An internal device within a slot machine which channels coins played to the hopper or to the drop bucket when the hopper is full.

draw ticket. A blank keno ticket used in a noncomputerized keno game whose numbers are punched out when balls are drawn for the game. Used to verify winning tickets.

drop. (1) In slots, the total amount of cash, tokens, and wagering vouchers removed from the drop bucket and the currency acceptor drop box. The term may also include the dollar amount of wagering credits transferred to a slot machine from a wagering account. (2) In table games, the total amount of cash, chips, and wagering vouchers contained in the drop box. The term may also include the amount of credit issued at the table.

drop box. A locked container affixed to the gaming table into which the drop is placed. The game type, table number, and shift are indicated on the box.

drop bucket. A container located beneath a coin operated gaming device for the purpose of collecting coins and tokens that overflow from the device.

drop count card. A document prepared by the count team to record the amount of cash, by denomination, in a drop box.

electronic money transfer. A transfer of funds between a wagering account and game through a cashless wagering system.

EPROM. Acronym for *erasable programmable read-only memory*. Computer chips used in slot machines containing the random number generator and other slot machine game programs.

eye in the sky. An overhead surveillance area used to monitor gaming activity on the casino floor.

fill. A transaction whereby a supply of chips or coins and tokens is transferred from a bankroll to a table or a coin operated gaming device.

fill cabinet. See **hopper storage area**.

fill slip. A document evidencing a fill.

floorperson. (1) In craps, the second-level supervisor responsible for the operation and conduct of a game. (2) In other games, the first-level supervisor responsible for the operation and conduct of a game. (3) In slots, the supervisor who approves jackpots and observes floor activity.

foreign chips. Casino chips of other casinos.

free play. Free wagering offered by a gaming entity to provide cashable benefits that increase the customer's odds of winning, changing the basic odds of the game.

front money. A customer deposit that is used in lieu of credit to guarantee payment of a marker issued.

futures. A bet on an event that has not yet occurred.

game bankroll (table bankroll). The inventory of coin, tokens, and gaming chips stored in the chip tray for each table game. Game bankrolls may be under the control of the casino bankroll or under separate general ledger controls. Table markers are included in the game bankroll until they are transferred to the cage.

game count sheet. See **master game report**.

gaming activity. a gaming entity participates in games of chance with customers, with both the gaming entity and the customer having the chance to win or lose money or other items of economic value based on the outcome of the game (commonly referred to as *banked games* – Also see *banked games*). a gaming entity participates in games of chance with customers, with both the gaming entity and the customer having the chance to win or lose money or other items of economic value based on the outcome of the game (commonly referred to as *banked games* – Also see *banked games*).

gaming related activity. Games in which the customer has the chance to win or lose money or other items of economic value, with the gaming entity receiving a fee (typically either a fixed fee or a percentage of play) for administering the game, rather than the gaming entity being at risk to win or lose based on the outcome of the game, are neither banked games nor gaming activities.

gross gaming revenue. The net win from gaming activities which is the difference between gaming wins and losses before deducting costs and expenses or deducting incentives or adjusting for changes in progressive jackpot liability accruals. Generally, the difference between patron wagers and the payouts made on winning wagers. Formulas for computing such revenue vary depending on the game type.

handle. The total amount wagered.

hand paid jackpot. The portion of a jackpot paid by slot personnel. The amount is usually determined as the difference between the total posted jackpot amount and the coins paid out by the machine. May also be the total amount of the jackpot.

hard count. The count of coins and tokens contained in drop buckets.

hit. A winning combination of symbols on the payline.

hit frequency. The rate at which a slot machine will produce a payout, expressed as a percentage of time. Also referred to as *hit rate*.

hold check. A check held in the custody of the casino at the request of a customer that has not been deposited with the casino's bank.

hold percentage. The relationship of *gross gaming revenue* to table *drop* or slot *handle*.

hopper (payout reserve container). The receptacle inside a slot machine containing coins or tokens used to make payouts.

hopper fill slip. A document used to record the monetary value of coins or tokens put into a hopper.

hopper load. Coins or tokens put in a slot machine hopper when the machine is initially placed on the casino floor.

hopper storage area (fill cabinet). A secure compartment located adjacent to the drop bucket compartment of a slot machine that is used for temporary storage of coin or tokens to be used for hopper fills.

house. A casino.

incremental progressive jackpot. The difference between the total amount of the progressive jackpot displayed and the base progressive amount.

independent agent. Independent contractor who performs marketing activities or marker collection activities, or both, on behalf of a gaming entity.

inside ticket. A keno ticket retained by the house showing the customer's selection of numbers and the amount wagered.

instant game. A lottery ticket that requires the player to remove a latex coating to determine if the ticket is a winner. Also called *scratch-off game* or *scratcher*.

issue slip. A copy of a marker that is retained for numerical sequence control purposes, documenting the details of the issuance of credit.

jackpot. Payout resulting from a winning wager.

jackpot payout. Slot machine payments of money, tokens, payout receipts, wagering vouchers, and electronic money transfers made from a slot machine to a wagering account.

jackpot payout slip. A form on which the portion of a jackpot paid by slot personnel is recorded.

keno lottery. A lotto game in which a set of numbers (typically 20) is selected from a large field of numbers (typically 80). Players select a smaller set of numbers (usually up to 10) and are awarded prizes based on how many of their numbers match those in the drawn set. With several state lotteries, keno is played at frequent intervals, with drawings as close together as every 4 to 5 minutes. With other lotteries, keno is played as a daily or weekly game.

keno runner. An employee who, as a convenience for customers in the casino and restaurant areas, collects keno tickets and remits winnings to customers.

key control ledger. A ledger that authorized personnel sign to receive keys to sensitive areas, such as drop boxes, safe deposit boxes, count room, and cashier's cage.

lammer button (marker button). A type of disk that is placed on a gaming table to indicate that the dollar amount of chips designated thereon has been given to the customer for wagering on credit prior to completion of a marker.

layoff bet. A wager by one race or sports book with another to offset an excessive accumulation of customer wagers on a particular race or event.

layout. In games like roulette or craps, a diagram on a gaming table, usually on felt, with spaces for bets.

limit. The minimum or maximum amount that a customer may wager at a particular table.

local area progressive jackpot. The progressive jackpot generated from a local area progressive system.

local area progressive system. Progressive slot machines that are operated at a single location and connected by a linked network.

lottery agent. A retail outlet that sells lottery tickets.

lottery commission. The fee paid to retail outlets for selling lottery tickets.

lottery terminal. A computerized device located at a lottery retailer that is used to sell online games and validate winning tickets of online and instant games. Terminals are connected to a lottery's central computers by phone line.

lotto. A lottery game where players select a group of numbers from a large set and are awarded prizes based on how many of the selected numbers match a second set chosen by a random drawing. In a typical lotto game, a player might be asked to select 6 numbers from a set of 49. At a predetermined time, 6 numbers are randomly selected by the lottery. The player wins a major prize if all 6 of the player's numbers match those chosen in the random drawing. The player wins smaller prizes for matching 3, 4, or 5 of the drawn numbers.

machine payout. The number of coins paid out to the customer by a coin operated gaming device as the result of a winning combination.

marker. A document, usually signed by the customer, evidencing an extension of credit to him by the casino.

marker button. See **lammer button**.

marker custodian. See **pit clerk**.

marker log. A detailed list of all marker transactions.

marker play. The wagering of chips obtained in exchange for a marker.

master game report (game count sheet, stiff sheet, pit report). A form used to record, by shift and day, each table game's winnings and losses. This form reflects the opening and closing table inventories, the fills and credits, and the drop and win.

meter reading summary. A report reflecting the meter readings on coin operated gaming devices. The number is recorded when the drop bucket is removed from the cabinet.

meter. A mechanical apparatus or software contained within a slot machine that may record such values as the number of coins wagered, the dollar amount of currency or vouchers inserted, the number of coins dropped, the number of times the handle was pulled, or the number of coins paid out to winning players.

money laundering. The disguising or concealing of illicit income in order to make it appear legitimate.

money play. Cash wagers at a table game.

net gaming revenue. Generally, gross gaming revenues less cash sales incentives and the change in progressive jackpot liabilities and revenue from gaming related activities. Cash sales incentives include discounts and match play in table games or free play and slot club points in slot transactions.

nondiscretionary programs. Nondiscretionary incentive programs offer incentives based on past gaming activity. The primary form of nondiscretionary incentive program is a point-based loyalty program, in which customers earn points as they play and can redeem those points for something of value, whether cash, free play, or other incentives such as complimentaries.

nonprogressive jackpot. The predetermined fixed payouts depicted on the pay table of the machine (such as the payouts based on reel combinations in a mechanical slot machine).

off-line game. A lottery game that does not require the use of a computer terminal for purchase. Instant and passive games are examples of off-line games.

online game. A lottery game where tickets are purchased through a network of computer terminals located at retail outlets. The terminals are linked to a central computer that records the wagers. Examples of online games are lotto and keno.

opener. The form on which the table inventory at the beginning of a shift is recorded.

outside ticket. A keno ticket given to a customer as a receipt with the customer's selection of numbers and the amount wagered marked on it.

paid outs. The total amount of money paid to customers as winnings on various games, such as keno, bingo, race and sports books, and slots.

panguingui (pan). A card game similar to rummy, usually played in a poker room.

passive game. A lottery game similar to a raffle where a player buys a ticket with preprinted numbers. The lottery randomly draws numbers that are compared to the players' tickets to determine the outcomes.

participation arrangement. An arrangement in which a gaming entity pays a fee to the manufacturer or owner/seller to use a slot machine and its related game.

payline. The horizontal rule across the center of the reel window. The symbols must line up on the line to hit a jackpot payout. Some slot machines will have multiple paylines that may be above and below the center payline and may even cross it diagonally.

payment slip. That part of a marker form on which details of a customer's payment are recorded.

payoff. The amount paid out on a winning wager.

payout percentage. The expected average percentage of money taken in that a casino's slot machines pay back to players over time. The percentage does not mean that all of the casino's machines pay back that amount. It is an average that is calculated over the long-run for each machine, given a certain number of plays.

payout receipt. An instrument with cash redemption value that is either printed at a slot machine or at a central location from where a payout can be made. A payout receipt cannot be accepted by a slot machine for wagering purposes.

payout schedule. A statement, printed on cards, paper, plexiglass, table layouts, or signs of the payoffs or awards applicable to a particular game or device.

paytable glass. Located on the top portion of the slot machine and generally made of plastic, this provides the player with a listing of the payout possibilities at that particular machine as well as the combinations necessary to achieve a particular payout. It also provides the customer with an overview of the various symbols contained on the machine's reels.

pit bank. A fund maintained in the pit area, usually in small casinos that do not have cages. Used for services normally provided by a cage cashier.

pit boss. The employee who supervises all games in a pit.

pit clerk (marker custodian). An employee at a desk in the pit who reports to the cage cashier and who prepares documentation such as requests for fills, requests for credits, and customer markers.

pit repayment. A customer's repayment of marker at a table.

pit report. See **master game report**.

pit. An area in a casino where gaming tables are located.

plaques. Rectangular, square, or oval objects used as chips. Used more frequently in foreign casinos and for very high denominations.

point spread. The number of points by which a team is favored to win a sporting event.

progressive jackpot. A jackpot that is generated from a single slot machine or group of machines that are connected by a linked network. The jackpot grows each time a player bets on the machines.

progressive system. Two or more slot machines linked to a common progressive meter that combine to form one jackpot.

progressive meter. A game payout schedule of a progressive jackpot.

progressive slot machine. A slot machine with a payoff indicator in which the payoff increases as it is played.

promotional chips. Chips issued for wagering that have no cash redemption value; typically used in conjunction with promotions and table game tournaments.

pulltab. See **breakopen**.

puncher. The device used to punch holes in keno *draw tickets*. Also, the person punching the draw tickets.

quick pick. A method for playing online lottery games where players choose to have a computer randomly select their numbers rather than picking the numbers themselves.

rabbit ears. A device, generally V-shaped, that holds the numbered balls selected during a keno or bingo game so that the numbers are visible to players and employees.

race and sports book. A section in a casino where wagers are accepted on the outcome of animal races and sporting events.

rake-off (rake). A commission charged by the house from each pot for maintaining or dealing a game, such as poker.

redemption kiosk. A self-service device for use by patrons that redeems wagering vouchers for currency.

reel cycle. The theoretical playing of a slot machine with each possible combination occurring once before there are any repetitions.

reel settings. The positions on a slot machine wheel controlling the outcome of winning combinations.

reel strip settings. Setting positions on slot machine reels so that they correspond to the calibrations regulating winning combinations and payoffs.

reels. The spinning wheels that contain the slot machine's symbols. On video style slot machines, the reels are simulated and used for the visual effect to display the result of the digital reels that are actually stored in computer memory and "spun" by a random number generator.

request for credit. A document prepared by a casino supervisor or pit clerk to authorize the preparation of a credit slip.

request for fill. A document prepared by a casino supervisor or pit clerk to authorize the preparation of a fill slip.

rim card. A document used in the pit to record a patron's rim credit activity.

rim credit. An extension of credit at a table game in exchange for chips not evidenced by the immediate preparation of a marker.

safe keeping deposit. See **customer deposits**.

scratch-off game. See **instant game**.

shift boss (manager). The executive with overall responsibility for casino operations during a shift.

shill (game starter). An employee financed by the house and acting as a player for the purpose of starting or maintaining a sufficient number of players in a game.

shoe. A device from which cards are dealt.

short pay. A payoff from a coin operated gaming device that is less than the listed amount.

sleeper. A winning keno ticket not presented for payment.

slip dispenser (whiz machine). A locked device used primarily in a cage to dispense fill slips and credit slips in numerical sequence.

slot booth. A booth or small cage in the slot area that is used to provide change to customers, store change banks, make slot fills, and account for jackpot payouts.

slot drop. The process whereby coins and tokens (over and above a minimum amount left in the machine for future play), currency, and tickets are removed from the slot machine, collected (dropped), and counted.

slot drop count. See **hard count**.

slot drop win report (slot win sheet). The accounting record of slot machine winnings.

The slot win sheet/win report can include the amount of coins or tokens retained by the casino, meter readings, hand paid jackpots, hopper fills, currency and tickets dropped, and the net win and win percentage by denominations for the period.

slot fill and payout sheet. A list of the slot fills and slot payouts.

slot fill. The coins placed in a hopper.

slot machine load. See **hopper load**.

slot machine. See **coin operated gaming device**. A gambling machine that randomly affects the results of a wager by determining win or loss.

slot supervisor. An individual with responsibility for a slot area and jackpots.

soft count. The count of the contents in a drop box.

sports lottery. Lottery games where outcomes are determined by the results of sports events. Sports lotteries are the most popular lottery games in much of the world (where they are called *toto* or *football pools*), but have not achieved this level of popularity in North America. They are offered throughout Canada, but in the United States are only sold in Delaware and Oregon.

squirrel cage. A holding unit used to mix balls before they are drawn in keno.

stickperson. The employee at the craps table who controls the dice, calls the numbers thrown, and is responsible for the speed of the game.

stiff sheet. See **master game report**.

stops. Collectively refer to the areas on a slot machine's physical reel which contain the symbols and blank spaces. A *stop* refers to a particular area on a slot machine reel containing either a symbol or a blank space. Any combination of *stops* can line up on a payline.

symbol. Each slot machine has a theme that accompanies it. Each theme has a set of images or graphics called *symbols* that represent the theme and which are placed on the reels.

system based game. A gambling game comprised of a server (or system) and client stations resembling slot machines that, together, form a single integrated device where the system portion of the game determines the outcomes of the individual games conducted on the client stations. The client stations cannot operate independently from the system with this type of game.

system supported game. A gambling game comprised of a collection of conventional slot machines or client stations resembling slot machines connected to a system for the purpose of downloading control programs and other software resources to the conventional slot machine or client station on an intermittent basis. The slot machines and client stations connected to the system are capable of operating independently from the system once the downloading process has been completed.

table chip tray. A container used to hold coins and chips at a gaming table.

table inventory. The total coins, chips, and markers at a table.

theoretical hold sheet. A form that lists the characteristics of an individual, coin operated gaming device, such as reel settings, award schedule, number of coins that may be played, number of reels, theoretical hold, and other data applicable to a slot machine.

theoretical hold. The intended hold percentage or win of an individual, coin operated gaming device as computed by reference to its payout schedule and reel strip settings.

ticket. See **wagering voucher**.

ticket acceptor. See **currency acceptor**.

ticket in/ticket out (TITO). A cashless wagering system that utilizes wagering vouchers.

time buy-in. A fixed amount of money charged for the right to participate in certain games for a period of time.

tokens. A coin-like money substitute, in various denominations, used for gaming transactions.

top box. The upper portion of the slot machine (located above the pay table) that displays the name or theme of the respective machine. The top box can be changed according to what theme is popular at a given point in time, providing the player-base with variety. The top box and the reel symbols are generally uniform, particularly with the themed games. For example, if you change the top box display from "Wheel of Fortune" to "Jeopardy," the reels must also be altered to carry symbols that correlate with the "Jeopardy" theme.

third party licensing arrangement. An arrangement in which a gaming entity pays a fee to the owner/seller for the right to use intellectual property or a copyrighted game such as a game used in a slot machine that the casino owns.

unpaid. A customer who has won but has not been paid

vault. A secure area within the casino where currency, coins, and chips are stored.

video lottery terminal. An electronic game of chance played on a video screen, similar to a video slot machine that is connected to a lottery's central computer. Unlike slot machines, video lottery terminals do not dispense money. Rather, a winning player is provided a ticket that is redeemed by the retail outlet for prizes.

VLT. See **video lottery terminal**.

wagering account transfer. An electronic transfer of wagering credits between a cashless wagering system wagering account and a game.

wagering account. An electronic ledger for a cashless wagering system patron deposit account reflecting deposits, withdrawals, and wagering account transfers to and from a game.

wagering coupon. A printed wagering instrument with no cash redemption value used with games interfaced with a cashless wagering system.

wagering voucher. A printed wagering instrument with cash redemption value used with games interfaced with a cashless wagering system. Also known as a *ticket*.

weigh count. The value of coins and currency counted by a weigh machine.

whiz machine. See **slip dispenser**.

wide area progressive jackpot. A jackpot generated from a wide area progressive system.

wide area progressive system. Progressive slot machines that are operated at multiple locations and are connected by a linked network.

wide area progressive (WAP) arrangement. An arrangement in which a gaming entity pays a fee to the WAP operator for providing a wide area progressive system.

win. See **gross gaming revenue**.

wrap. The procedure of wrapping coins. May also refer to the total amount or value of the wrapped coins.

write. The total amount wagered in keno, bingo, or race and sports book operations.

writer machine. A locked device used to prepare keno or race and sports book tickets.

writer. An employee who writes keno or race and sports book tickets. A keno writer usually also makes payouts.

Appendix G – *Status of Incremental GAAP*

G.1 This appendix provides an analysis of those sections of the May 1, 2006 edition of the AICPA *Audit and Accounting of Casinos* Industry Audit Guide that have been tentatively identified by the Financial Accounting Standards Board (FASB) staff to contain accounting principles that are not promulgated elsewhere (referred to as *incremental GAAP)*. As explained in the notice to readers of the proposed guide, the May 1, 2006 edition of this guide contained incremental GAAP. The 2006 edition is not superseded because it remains a source of level *b* GAAP, and the proposed guide brings forward incremental GAAP from the 2006 edition.

G.2 This appendix presents an excerpt from the 2006 edition of the guide and makes reference to where this guidance appears in the proposed revised guide along with any explanations, as necessary.

2.02 Casino revenue is reported on the accrual basis. Revenue recognized and reported by a casino is generally defined as the win from gaming activities, that is, the difference between gaming wins and losses, not the total amount wagered.

Note: This paragraph is retained in chapter 3 of the revised guide, in the "Introduction" section (paragraph 3.05).

2.03 Promotional allowances (*complimentaries,* or *comps*) represent goods and services, which would be accounted for as revenue if sold, that a casino gives to customers as an inducement to gamble at that establishment. Examples are rooms, food, beverages, entertainment, and parking. The cost of providing promotional allowances is included in costs and expenses.

Note: This paragraph is retained in chapter 3 of the revised guide, in the "Overview of Incentive Programs" section (paragraph 3.41).

2.04 The retail amount of promotional allowances is often disclosed in the financial statements. This disclosure, if made, is preferably made in the financial statement notes. However, the retail amount of promotional allowances may be included in gross revenues and offset by deducting it from gross revenues on the face of the income statement. The retail amount of promotional allowances should not be included in gross revenues and charged to operating expenses because that would overstate both revenues and expenses.

Note: This paragraph is retained in chapter 3 of the revised guide, in the "Overview of Incentive Programs" section (paragraph 3.42).

2.07 Financial statement reporting for casinos differs from income tax reporting, resulting in deferred income taxes when (*a*) recognition of casino receivables is used for financial statements and the "when collected" method is used for income tax reporting; (*b*) costs are deferred for financial statements and are charged to expense for income tax reporting; and (*c*) progressive slot jackpots are accrued based on meter readings for financial statements and are charged against revenue when paid for income tax reporting.

Note: This paragraph is retained in chapter 11 of the revised guide, in the "Deferred Income Taxes for Casinos" section (paragraph 11.29).

2.09 *Base jackpots* are charged to revenue ratably over the period of play expected to precede payout; however, if immaterial, they are charged to revenue when established. Any portion of the base jackpot not charged to revenue when the jackpot is paid is charged to revenue at that time.

Note: This paragraph is retained in chapter 4 of the revised guide, in the "Summary of Selected Accounting Literature" section (paragraph 4.03). For additional information regarding this paragraph, refer to the transmittal letter accompanying this guide.

2.11 In some operations, the casino pays a percentage of the win of participating slot machines to slot machine lessors. In those cases, the win is usually recorded as revenue, and the participating fee is shown as an expense.

Note: This paragraph has not been retained in the revised guide. For additional information regarding this paragraph, refer to the transmittal letter accompanying this guide.

2.12 Gaming *chips* are accounted for from the time the casino receives them even though the casino may not issue them immediately, but, instead, hold them in reserve. When a customer exchanges cash for gaming chips, the casino has a liability as long as those chips are not redeemed or won by the house. That liability is established by determining the difference between the total chips placed in service and the actual inventory of chips in custody or under the control of the casino. The chip liability is adjusted periodically to reflect an estimate of chips that will never be redeemed (for example, chips that have been lost, taken as souvenirs, and so on).

Note: This paragraph is retained in chapter 11 of the revised guide, in the "Gaming Chips and Tokens Liability" section (paragraph 11.15).

2.21 Operations of a nonpublic business enterprise with a casino property that also includes a hotel, restaurant, parking garage, and the like are generally considered as one industry segment. The operating revenues of each are generally separately determinable. However, because of the natural interdependence of such operations, an allocation of costs among them to determine relative contributions to income (operating profit) would be largely arbitrary and, therefore, not meaningful. However, nonpublic casino business enterprises operating in various legal jurisdictions may have geographic segments and should, therefore, report such information.

Note: This paragraph is retained in two paragraphs in chapter 11 of the revised guide, in the "Segment Reporting" section (paragraphs 11.26–11.27).

Appendix F Definition of a **base jackpot.** The fixed, minimum amount of a slot machine payout for a specific combination.

Note: This definition is retained in appendix F.

Appendix F Definition of **chips.** Money substitutes, in various denominations, issued by a gaming establishment and used for wagering.

Note: This definition is retained in appendix F and the following additional, nonauthoritative language has been included:

- Gaming tables often have *tokens* and *plaques* in addition to chips. For simplicity, the term *chips*, as used in this guide, also include tokens and plaques.

Appendix F Definition of a **coin operated gaming device.** Any of a variety of mechanical or electronic apparatus used in connection with gaming.

Appendix F Definition of a **slot machine.** See **coin operated gaming device.**

Note: These two definitions are retained in appendix F, but the FASB staff has only identified **slot machine** as tentative incremental GAAP. The FASB staff has tentatively used the definition of coin operated gaming device from the 2006 AICPA *Audit and Accounting of Casinos* Industry Audit Guide, shown above, to define the term slot machine. In addition, the following additional, non authoritative language has been added to the definition of **coin operating gaming device**:

- Includes slot machines and electronic video games such as poker, blackjack, craps, and keno. See **slot machine**.

Appendix F Definition of **win.** See **gross gaming revenue.**

Appendix F Definition of **gross gaming revenue.** The net win from gaming activities, which is the difference between gaming wins and losses before deducting costs and expenses.

Note: These two definitions are retained in appendix F, but the FASB staff has only identified the term **win** as tentative incremental GAAP. The FASB staff has tentatively used the definition of **gross gaming revenue**, shown previously, to define the term **win.** In addition, nonauthoritative language has been added to the definition of **gross gaming revenue:**

- Or deducting incentives or adjusting for changes in progressive jackpot liability accruals. Generally, the difference between patron wagers and the payouts made on winning wagers. Formulas for computing such revenue vary depending on the game type.

Appendix F Definition of **progressive slot machine.** A slot machine with a payoff indicator in which the payoff increases as it is played.

Note: This definition is retained in appendix F.