

# **RACE & SPORTS REVENUE**

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GAMING CONTROL BOARD  
GAMING AUDIT PROCEDURES MANUAL

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**TERMINOLOGY**

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

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

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

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

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

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<b>Lottery</b>	<b>NRS 462.105.</b> Lottery means any scheme for the disposal or distribution of property, by chance, among persons who have paid or promised to pay any valuable consideration for the chance of obtaining that property, or a portion of it, or for any share or interest in that property upon any agreement, understanding or expectation that it is to be distributed or disposed of by lot or chance, whether called a lottery, raffle or gift enterprise, or by whatever name it may be known. The term lottery does not include a promotional scheme conducted by a licensed gaming establishment in direct association with a licensed gaming activity, contest or tournament. All lotteries except for charitable lotteries are illegal in Nevada.
<b>Messenger</b>	A person who places a race book or sports pool wager for the benefit of another for compensation.
<b>Middled or middling</b>	Refers to a method of wagering where patrons (usually professional gamblers) attempt to wager on both sides of a game at different books or the same book at different times, with the hope that the final score is between two different point spreads thereby allowing him to win both bets.
<b>Modified accrual basis of accounting</b>	A basis of tax reporting (as defined by <b>Regulation 6.110(3)(b)</b> ) where the licensee reports as gross revenue the money it accepts on events or games that occur during the month plus money, not previously included in gross revenue, that was accepted by the licensee in previous months on events or games occurring in the month, less money paid out during the month to patrons on winning wagers.
<b>Morning line odds</b>	The odds set by the race track prior to the commencement of wagering. The final odds reflect the actual wagers made by track patrons.
<b>Money line</b>	Quantification of a point spread into odds for a patron's wager in lieu of a handicap (point spread) for a given participation. For example: 49ers - \$140; Redskins + \$130. 49ers bettors would bet \$140 to win \$100 (total of \$240 paid), while Redskins bettors would win \$130 for every \$100 they bet (total of \$230 paid) if the Redskins won.
<b>Monitor</b>	Refers to the screen (like a television) on which the information appears.
<b>Nickel</b>	\$500.
<b>Nickel line</b>	A money line in which the vigorish amounts to 5 percent.

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

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

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

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

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

**GENERAL**

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

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

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

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

- a. Counterfeit facsimiles of money, chips, tokens, wagering instruments or wagering credits;
- b. Cash taken in fraudulent acts perpetrated against a licensee for which the licensee is not reimbursed;
- c. Cash received as entry fees for contests or tournaments in which patrons compete for prizes, except for a contest or tournament conducted in conjunction with an inter-casino linked system.

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

The accounting department generates the R/S reports every day and uses these reports, along with other documentation (e.g., paid R/S tickets, newspaper R/S results, etc.), to audit the day’s work. R & S revenue (as defined above) is then posted to the accounting records (e.g., revenue journal or general ledger). At the end of the month the licensee uses these accounting records to prepare the tax report.

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

**BALANCING WAGERING ACTIVITY / LAYOFF BETS**

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

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

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lose an event (i.e., because the majority of bettors would put their money on the favorite). Therefore, books try to provide enough enticement for the wagering activity on an event to be balanced so that they can maintain their vigorish. This enticement comes in the form of either a point spread or a money line.

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

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

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

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

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

**NONCASH NONPARI-MUTUEL WAGERS**

Race books and sports pools must comply with specific identification, recordkeeping and reporting requirements for noncash nonpari-mutuel wagering transactions. These requirements

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are set forth in **Regulations 22.061 through 22.065**. The requirements, which are similar to **Regulation 6A** requirements for race books and sports pools, are further explained in the "Regulation 22 Newsletter #1" issued by the Gaming Control Board on March 24, 1999.

**ACCOUNTING PROCEDURES**

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

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

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

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

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

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

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

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

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

**IN-HOUSE PROGRESSIVE PAYOFF SCHEDULES**

**Regulation 5.110** addresses in-house progressive payoff schedules. The regulation states that progressive payoff schedules may have limits. Also, the payout indicators (progressive meters) cannot be turned back except for a payout to a customer, the meter going over the progressive limit, or a documented malfunction. The progressive amounts may be transferred to a similar game but this must also be documented. Progressive payoff schedules may be given away

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through a concluding contest, tournament or promotion if conducted with a game similar to the game from which the amounts are distributed. For the purposes of auditing gaming establishments, no work need be done with regard to inter-casino linked progressive payoff schedules.

**FREE PLAY AND PROMOTIONAL ITEMS**

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

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

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