

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 on 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, Resorts International, opened on the boardwalk. As of 2017, 7 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*¹ 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 1-1 in paragraph 1.19)

¹ Terms that appear in the glossary are shown in *italics* the first time they appear.

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, 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 nonbanked card games that are played exclusively against other players, such as 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.
- 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 44 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 G, "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 major prize is won on a ticket sold 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 might be (a) 55 percent returned to patrons as prizes; (b) 33 percent to fund education, health care, transportation, or other similar state budget items; (c) 7 percent commission to agents; and (d) 5 percent to fund lottery operating costs.

1.16 Gaming entities subject to the governmental generally accepted accounting principles hierarchy are referred to as *governmental* throughout this guide. Such entities should refer to chapter 12, "Governmental Gaming Entities," of this guide for additional guidance specific to governmental entities, as well as certain sections of chapter 3, "Overview of Gaming and Gaming Related Revenue."

Other Gaming

1.17 Gaming is also conducted through various charitable organizations, through slot routes at convenience and grocery stores, on cruise ships, over the internet, and on horse and greyhound races at race tracks and off-track betting sites. 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 1-1

Nature of Legalized Gaming Throughout the United States

State	Land based ¹	River-boat	Native American ²	Card room	Lottery ³	Bingo	Online Gaming	Racino ⁴	Sports Wagering ⁵	None
Alabama			X			X				
Alaska			X			X				
Arizona			X		X	X				
Arkansas					X	X				
California			X	X	X	X				
Colorado	X		X		X	X				
Connecticut			X		X	X				
Delaware					X	X	X	X	X	
District of Columbia					X	X				
Florida			X	X	X	X		X		

(continued)

**Nature of Legalized Gaming Throughout the
United States — *continued***

State	Land based ¹	River-boat	Native American	Card room	Lottery	Bingo	Online Gaming	Racino	Sports Wagering	None
Georgia					X	X				
Hawaii										X
Idaho			X		X	X				
Illinois		X			X	X				
Indiana		X			X	X		X		
Iowa		X	X		X	X		X		
Kansas	X	X	X		X	X				
Kentucky					X	X				
Louisiana	X	X	X		X	X		X		
Maine					X	X		X		
Maryland	X				X	X		X		
Massachusetts	X		X		X	X				
Michigan	X		X		X	X				
Minnesota			X	X	X	X				
Mississippi	X	X	X			X			X	
Missouri		X	X		X	X				
Montana			X	X	X	X			X	
Nebraska			X		X	X				
Nevada	X		X			X	X		X	
New Hampshire					X	X				
New Jersey	X				X	X	X		X	
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			X	
Pennsylvania	X				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				
West Virginia	X				X	X		X	X	
Wisconsin			X		X	X				
Wyoming			X		X	X				
Number of states	12	7	30	5	45	48	3	13	8	2

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, and Nebraska.
³ Includes Powerball, Mega Millions, and state lotteries.
⁴ Delaware, New Mexico, and Rhode Island use video lottery terminals.
⁵ Sports betting in some form has been legalized. More states are in the process of legalizing.

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

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

1.22 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 was deemed to be illegal in the United States especially as a result of the Unlawful Internet Gambling Enforcement Act of 2006 (UIGEA). Subsequent federal government bills and interpretations of the UIGEA have provided for the legalization and regulation of online poker and some other forms of online gaming at the individual state level. As of the end of 2017, the states of Nevada, New Jersey, and Delaware have legalized online gaming conducted and operated within their state.

1.23 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.

1.24 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.²

Regulation and Oversight

1.25 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.

1.26 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. Currently, state laws dictate and regulate the conduct of online gaming conducted and offered within the individual state. Online gaming conducted across state lines is considered illegal in accordance with the UIGEA.

1.27 Officers, directors, and certain key employees of a gaming entity must be licensed by the gaming regulatory authorities, and employees associated with gaming must often 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

² 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.

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.

1.28 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.

1.29 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.

1.30 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 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.

1.31 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.

1.32 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.

1.33 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.

1.34 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.

1.35 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.

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

1.37 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 E, "The New Jersey Casino Reinvestment Development Authority," for additional details.)
- Under 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 F, "Currency Transaction Reporting in the Gaming Industry." 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.
- The Professional and Amateur Sports Protection Act (PASPA) was passed in 1992 for the stated purpose of protecting the integrity of sports. As a part of the protection process, PASPA banned sports betting in all but a few U.S. states. In 2018 the Supreme Court declared the federal law unconstitutional. This leaves it up to individual states to determine the legality of sports betting.

Brief Descriptions of the Games

1.38 The jurisdiction where 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. Online gaming functions similar to a normal gaming entity in terms of the games offered. The individual laws and regulations of each jurisdiction determine what games can be legally offered online. Refer to paragraph 1.46 for additional information. More detailed descriptions of some of these games are included in appendix G.

Table Games

1.39 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
- Pai-Gow Poker
- Roulette
- Wheel of Fortune, or Big Six
- Baccarat
- War

Card Games

1.40 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.

Slot Machines

1.41 *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 many variations exist. 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.

1.42 Conventional slot machines operate independently from other slot machines and contain control programs that determine the outcome of each wager. However, technological advances have been made that allow 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

1.43 A keno ticket bears a selection of numbers from 1 to 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

1.44 A bingo ticket has 5 rows of 5 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

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

Online Real Money Gaming

1.46 Online gaming generally consists of the online versions of the same games seen in regular gaming entities. Examples of the most prevalent online gaming include: Seven Card Stud; Omaha and Texas Hold 'Em which are offered in a variety of formats such as cash or "ring" games; single table tournaments that are often referred to as "Sit and Go's" and multi-table tournaments. Real money games also offer Blackjack, baccarat, Pai-Gow, Hi-Lo, Roulette, Keno, and others.

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