



Bulletin No. 2003-4

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Subject: Audit Requirements for Gaming Operations – Gross Gaming Revenue Computation

The purpose of this Bulletin is to reaffirm our position regarding the computation of gross gaming revenue, specific to financial statement presentation. Based on the review of audit reports, we have detected errors in the computation of revenue derived from gaming sources. As noted below, the major problems concern the understatement of gaming revenues by deducting amounts that should be classified as a cost or operating expense.

The Indian Gaming Regulatory Act, Section 571.12 of 25 C.F.R. requires the following:

A tribe shall engage an independent certified public accountant to provide an annual audit of the financial statements of each gaming operation on Indian lands. Such financial statements shall be prepared in accordance with generally accepted accounting principles (GAAP) and the audit(s) shall be conducted in accordance with generally accepted auditing standards. Audit(s) of the gaming operation required under this section may be conducted in conjunction with any other independent audit of the tribe, provided that the requirements of this chapter are met.

The American Institute of Certified Public Accountants (AICPA) has issued interpretations of GAAP relevant to specific industries, which are intended to provide accounting and auditing guidelines. Accordingly, the AICPA Industry Audit and Accounting Guides–Audits of Casinos stipulates that, by definition, gross gaming revenue is the net win from gaming activities, which is the difference between gaming wins and losses before deducting costs and expenses. The NIGC definition of gross gaming revenue is consistent with the professional pronouncement. Refer to Section 542.2 of 25 C.F.R.

Specifically, we have noted the following practices that are in conflict with the AICPA's professional pronouncement and NIGC Regulations:

Inter-Casino Linked Systems (includes Wide Area Progressive Systems).

A gaming operation may deduct from winnings only its pro-rata share of inter-casino linked system payouts. It is not permissible to deduct amounts to cover payment of fees, costs, or expenses associated with, or attributable to, administering the inter-casino system, or similar such enterprise.

#### Operating Lease Payments.

In some operations, the casino pays a percentage of the revenue generated by participating gaming machines to equipment distributors or manufacturers for use of the machines. The deduction of such payments from the amount wagered is not permitted. The total win should be recorded as revenue and the participating distribution should be recognized as an operating expense.

#### Tribe/State Compact Payments.

The deduction of amounts paid to a State or other designated entity is a cost of doing business in that jurisdiction and not a payout or loss arising from a wagering transaction. Therefore the payments do not represent an allowable deduction from win.

#### Promotional Allowances.

Casino complimentaries (comps) that a casino gives to customers as an inducement to gamble may not be included as a deduction in the computation of gross gaming revenue.

The retail amount of promotional allowances is often disclosed in the financial statements, preferably, in the financial statement notes. However, this amount may be included in gross revenues and offset by deducting it from gross revenues on the face of the income statement.

#### Other Compensation.

For card games, tournaments and any other games in which the casino is not a party to a wager, gross gaming revenue shall include all money received as compensation for conducting the game, i.e. rake, commissions, entry fees, and admission fees.

In addition to understating gross gaming revenue, the improper deduction of these amounts also understates assessable gaming revenue (See section 514.1(b) of 25 C.F.R.) and the fee assessments.

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Should you have any question, please call the Division of Audits at (503) 326-7050 or submit inquiries to our website at [www.nigc.gov](http://www.nigc.gov)