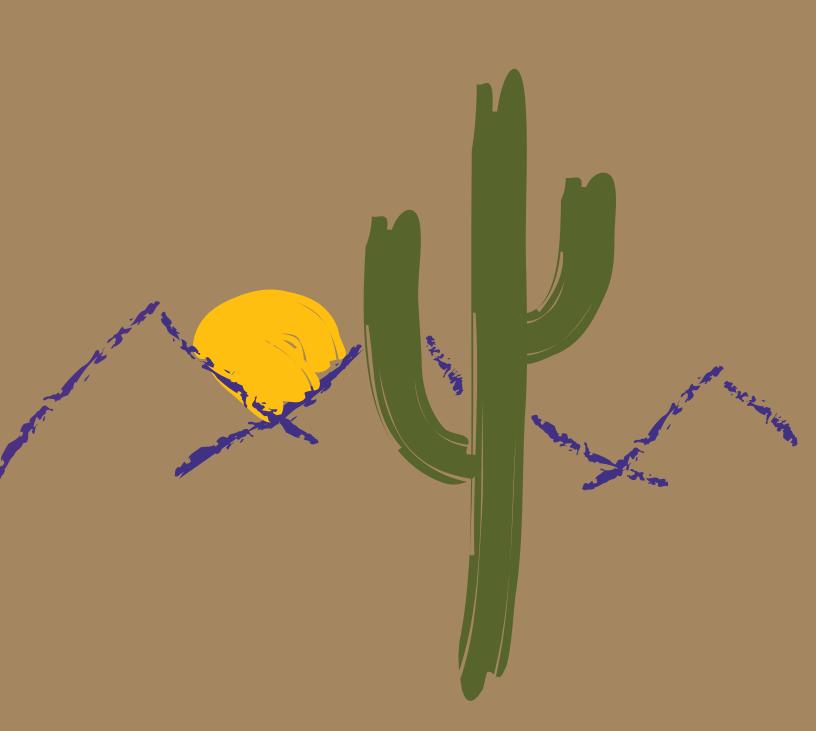
ARIZONA DEPARTMENT OF GAMING

ANNUAL REPORT 2007



MESSAGE FROM THE DIRECTOR

On behalf of the Arizona Department of Gaming, I am pleased to submit the Department's Annual Report for State Fiscal Year (FY) 2007.

The Arizona Department of Gaming (Department) partners with Arizona's Indian Tribes to oversee Indian casinos in the state under the Tribal-State Gaming Compact. The mission of the Department is to protect the public and ensure the integrity of gaming. In cooperation with the Arizona Tribes, the Department monitors and enforces compliance with the Arizona Tribal-State Gaming Compact. In addition, the Department's Office of Problem Gambling provides treatment, prevention and education programs for problem gambling.

Gaming in Arizona is governed by the Tribal-State Gaming Compact between the State of Arizona and 21 Tribes. The Compact and its appendices specifically set forth the types of permitted games, establish technical standards for gaming machines, contain minimum internal control standards for casino operations, authorize the State to inspect casinos, and mandate background investigations and certification of casino employees and vendors. The Tribes agreed to contribute a portion of their gaming revenue to the State, cities, towns, and counties, and to pay for a portion of the State's expenses for regulating casinos. In addition to State monitoring, every Tribal casino is regulated by a Tribal Gaming Office (TGO), which is independent of the Tribal casino operation. The TGO is responsible for on-site regulation of all gaming activities.

The Department has 118 full-time positions, including 38 peace officers who are certified by the Arizona Peace Officer Standards and Training (AZPOST) Board. Department employees include former and retired police officers and law enforcement agents, certified public accountants, auditors, slot machine technicians, administrative staff and others.

The Department is funded entirely by the gaming industry; it receives no taxpayer funds (State General Fund revenue). The Department had a budget of \$11.6 million in FY 2007, including \$1.8 million allocated for problem gambling.

In FY 2007, the aggregate gross gaming revenue of Arizona casinos increased 8.6 % from the previous year to \$1.94 billion. Gross gaming revenue (also called net win) is the difference between gaming wins and losses, before deducting casino operating costs and expenses. That year, the Tribes made combined Tribal contributions of \$92,224,129.39 to the State's Arizona Benefits Fund, which finances education, healthcare, wildlife conservation, tourism, problem gambling programs, and the Department's operating budget. In addition, the Tribes contributed another \$11,375,743.78 directly to cities, towns, and counties of the Tribes' choosing.

Partnerships

During FY 2007, the Department continued to forge partnerships and broaden its outreach to strengthen oversight of casinos and promote best industry practices. The Department's main partners in regulation are the Tribal Gaming Offices (TGOs). TGOs are the Tribal on-site regulators and have primary authority for regulating casinos. The Department interacts with TGOs on a daily basis, sharing information and support. The ongoing interaction between the Department and Tribal regulators helps ensure that problems are remedied quickly and potential problems are averted.

The Department reaches out to other constituencies that share its mission to protect the integrity of gaming. The Department attends meetings of the Arizona Tribal Gaming Regulators Alliance to report on the Department's activities and objectives. The Department also meets regularly with representatives of the Arizona Indian Gaming Association, whose membership includes 19 of Arizona's 22 Tribes.

The Department is a member of the Indian Gaming Working Group, created to improve oversight of casinos and encourage information sharing. The Indian Gaming Working Group is comprised of the Arizona Department of Gaming, the U.S. Department of Justice, the Federal Bureau of Investigation, the National Indian Gaming Commission, the Department of the Interior, the Bureau of Indian Affairs, the Internal Revenue Service, and the Treasury Department. The group meets regularly to make sure that, when it comes to oversight of gaming, "all our radios are on the same frequency." Additionally, the Department meets monthly with representatives of the National Indian Gaming Commission's Southwest Regional Office in Phoenix.

As an example of how the Department and Tribes work together successfully, in FY 2007 the Department concluded negotiations on updates to the Jackpot Poker Appendix. The updates allow the Tribes to offer patrons new variations of popular jackpot poker games while preserving the State's interest in ensuring compliance with the Tribal-State Gaming Compact and its appendices in an ever-changing industry.

Also in the FY 2007, the Department and the Tribes made significant progress on formulating the Joint Monitoring System (JMS)/ State Electronic Access System (SEAS) agreed to in the Compact. JMS/SEAS is a computerized system that will be used by the Department of Gaming to gain remote access to an urban casino's online electronic game management system on a real-time, read-only basis. The system will provide the Department a more effective and efficient means of regulating gaming devices and tracking casino revenue. The Department will work with Tribal Gaming Offices and Tribal representatives to further negotiations for the remote system, which will be a secure link between the Department and the casinos of the six urban Tribes in the Phoenix and Tucson area.

Training and Outreach

In FY 2007, the Department of Gaming gave presentations to Tribal regulators, casino officials, industry representatives, and others on a variety of subjects affecting gaming. Department staff hold informational sessions with Tribes and other partners to share expertise, answer questions, gather information, and field suggestions on how to improve regulatory effectiveness and efficiency. The Tribes' eagerness to attend Department-sponsored training demonstrates that the State and the Tribes have a mutual interest in constantly improving regulatory compliance.

The Department engages in outreach in an attempt to make the Department's work transparent so that Tribes, TGOs, gaming employees, casino vendor companies, and the public know what is needed to comply with the Gaming Compact and meet the Department's certification requirements. For example, the Department's Vendor Certification Unit holds sessions on what criteria it considers in assessing a company's suitability for the gaming industry. Equipped with this information, Tribes, casino operators, and applicants for vendor certification can learn how to satisfy the Department's exhaustive certification requirements. The Department's Employee Certification Unit provides training to the Tribes on writing effective investigative reports. These sessions benefit the Department because it uses Tribal internal investigative reports to evaluate the suitability of casino employees and vendors.

In collaboration with the U.S. Attorney in Phoenix, the Department, in FY 2007, organized and financed training for Tribal and State gaming agents, casino officials, and surveillance officers from around the State on important law enforcement and regulatory issues. These multi-day seminars covered subjects such as "Surveillance Operations and Games Protection," and "Detecting Internal/Employee Casino Thefts." During another seminar, International Gaming Technologies' "Gaming Agent Training", instructors taught students the mechanics of slot machines and how to detect if anything improper is being done to the machines.

National Recognition

The Department's regulatory program exemplifies "the very best in regulation," according to the May 2007 issue of Casino Enterprise Management, the leading magazine for casino owners and executives. Magazine staff spent several days with Department employees, observed Department gaming device compliance technicians inspecting slot machines at Arizona casinos, and wrote: "The field inspections

we observed were models of regulatory efficiency that reflected meticulous planning and careful coordination. The inspectors arrived on time and met briefly with their tribal counterparts. Everyone involved knew their precise task. The inspection itself proceeded as a well-choreographed ballet. The machines to be inspected were quickly identified, media pulled and tested, and the games powered up and back online before any patrons even missed them. The state regulators and the tribal regulators work together for the best interest of gaming and to assure compliant and effective enforcement. The Department's management and staff have worked hard to build a comprehensive and efficient system of checks and balances that not only work well for them, but–at least to the extent of our observations—are also welcomed by the tribes."

According to the Arizona Republic, industry analysts call Arizona's Tribal gaming regulation "a model plan" for the country. The Department fields queries from other states seeking advice and input on what methods and approaches have succeeded in Arizona. In May 2007, I was invited to testify before the California State Assembly on an important federal appeals court ruling affecting the future of Indian gaming nationwide. California lawmakers sought comments and expertise on how the Department of Gaming is able to successfully enforce stringent minimum internal control standards for casino operations in Arizona.

The Arizona model works because of the mutual respect and cooperation between State and Tribal regulators. The Department of Gaming is proud of its partnership with Arizona's Tribes, an alliance that sets the highest standard for gaming regulation.

Paul A. Bullis Director

OUR MISSION

Protect the public, ensure compliance with the gaming compacts, and regulate the gaming industry.

OUR DIVERSITY STATEMENT

The Arizona Department of Gaming believes in creating and maintaining a diverse work environment. The Department is committed to recruiting, developing, retaining, and advancing qualified employees regardless of race, color, religion, gender, age, disability, or national origin. The Arizona Department of Gaming promotes a work environment in which all employees are treated with trust, respect, and dignity.

OUR VALUES

We act with Integrity. We support Diversity. We respect and work with the Tribes as Partners. We are Transparent, Consistent, and Predictable. We are Professional, Accountable, and Responsible in all our activites. We Respect and Support each other.

BACKGROUND ON AMERICAN INDIAN GAMING IN ARIZONA

In 1988, the U.S. Congress passed the Indian Gaming Regulatory Act (IGRA) in response to the proliferation of gambling halls on Indian reservations. IGRA recognized gaming as a way to promote Tribal economic development, self-sufficiency, and strong Tribal government. The Act says a State must permit Indians to operate gaming on reservations if the State permits such gaming off-reservation. Under the Indian Gaming Regulatory Act, a Tribe that wants to engage in Class III casino-style gaming must first sign a gaming Compact (or agreement) with the State where the casino would be located. IGRA requires a State to negotiate in good faith with the Tribe seeking a Tribal-State Gaming Compact.

In enacting IGRA, Congress was reacting to a regulatory vacuum left by a 1987 U.S. Supreme Court ruling (California v. Cabazon Band of Mission Indians) that States have no regulatory authority over gaming on Indian reservations. That ruling said Tribes have the right to operate gaming on reservations if States allowed such gaming off-reservation.

The Indian Gaming Regulatory Act of 1988 expressly granted States and the Tribes the power to jointly regulate Class III Tribal gaming. Class III gaming includes slot machines, blackjack, keno, and other casino-style games. IGRA also created the National Indian Gaming Commission to oversee reservation bingo games and certain aspects of Class III gaming.

By the early 1990s, several Arizona Tribes had installed slot machines in their casinos although none of them had Tribal-State Gaming Compacts with the State. The Arizona governor at the time, Fife Symington, said reservations shouldn't have casinos because Arizona didn't allow such gambling off-reservation. Tribes countered that Arizona did permit such gambling by allowing state lotteries, dog and horse racing, and charity bingo games offreservation.

In May 1992, the National Indian Gaming Commission issued rules clarifying that a Tribe must have a gaming Compact with a State before the Tribe can operate slot machines. Immediately after the rules were announced, Governor Symington called on the U.S. Attorney in Phoenix to shut down casinos with the slot machines. FBI agents raided five Indian casinos and seized their slot machines. At Fort McDowell casino near Scottsdale, Tribal members formed a blockade to prevent the removal of the machines, and a three-week standoff ensued.

Against a backdrop of legal challenges by both sides that continued for more than a decade, from 1992 to 1994 Governor Symington signed Arizona's first set of Tribal-State Gaming Compacts with 16 Tribes. Governor Symington's successor, Jane Dee Hull, signed a Compact with a 17th Tribe in 1998. This first set of Compacts was in effect until 2003.

The Arizona Tribal-State Gaming Compacts gave Tribes exclusive rights to operate slot machines and casino-style gaming, limited the number of slot machines and casinos, established comprehensive rules governing gaming, and set minimum internal control standards for casino operations. The Compacts authorized the State of Arizona to ensure compliance with the Tribal-State Gaming Compact and to work with Tribal regulators to protect the integrity of Class III gaming on Tribal lands.

In the November 2002 general election, Arizona voters approved Proposition 202, which authorized the continuation of Indian gaming. In December 2002 and January 2003, Governor Hull signed new Tribal-State Gaming Compacts with 16 Tribes. In 2003, Governor Janet Napolitano signed Compacts with an additional five Tribes. The Compact with each of the 21 Tribes is identical. Each Compact took effect in 2003. They last for ten years and can be renewed for another decade plus three years in which to negotiate a new Compact.

Currently, there are 15 Tribes operating 22 Class III casinos in the State. Another 6 Tribes don't have casinos but have slot machine rights that they may transfer to other Tribes. One of Arizona's 22 Tribes doesn't have a gaming Compact.

Class III gaming in Arizona includes slot machines (also called gaming devices), jackpot poker, blackjack, keno, and off-track, pari-mutuel betting. There were 13,232 Class III slot machines in operation in Arizona at the end of FY 2007. There were 213 jackpot poker tables and 276 blackjack tables; both games have betting limits. Some Tribes also offer live keno or Class II bingo gaming.

TRIBAL INVESTIGATIONS AND INSPECTIONS UNIT

The Tribal Investigations and Inspections Unit of the Department of Gaming monitors Compact compliance at the casinos by conducting on-site inspections of casino operations and investigating suspected Compact violations and criminal activity. The Unit is comprised of Special Agents, all of whom have previous experience working as law enforcement officers and have full authority AZPOST certification. Special Agents have backgrounds working in city police departments, the Arizona Department of Public Safety, the U.S. Marshals Service, the U.S. Drug Enforcement Administration, and other entities.

Special Agents work at casinos to ensure that gaming operations are conducted in compliance with the Tribal-State Gaming Compact. On-site inspections of gaming facilities ensure that appropriate security and surveillance procedures are in place. The physical presence of the Special Agents in casinos gives them opportunities to spot potential problems and to work with Tribal Gaming Offices and casino officials to correct deficiencies. Special Agents have full access to all casino premises, including the cashiers' cage, money count rooms, back rooms, and video surveillance offices. Casino-based monitoring encourages agents to spend as much time as possible in every casino in the State.

Tribal Gaming Offices are the on-site regulators in the casinos. Under the Arizona Tribal-State Gaming Compact, TGOs have primary responsibility for regulation. The Tribal Investigations and Inspections Unit offers input to Tribal Gaming Offices and casino operators on issues ranging from parking lot security to the positioning of surveillance cameras in card rooms. This interaction with the TGOs furthers the Department's goal of protecting the public.

During inspections and investigations, Special Agents have access to all of the casinos' surveillance videotapes and records. If a patron has a complaint involving a slot machine or card game, the Special Agents can review the casino's surveillance tapes. Special Agents have full access to casino security-related documents, such as sign-in/sign-out sheets for employees accessing the casino vault and daily incident reports that record unusual occurrences in the casino. Casinos are required to report unusual occurrences to the Department of Gaming.

Special Agents work closely with their counterparts in the casinos' Tribal Gaming Offices to investigate suspected Compact violations and criminal activity. In conjunction with the Intelligence Unit, the Tribal Investigations and Inspections Unit cooperates with other law enforcement and gaming agencies. The Tribal Investigations and Inspections Unit provides assistance to federal, tribal, state, local, and foreign agencies in multi-jurisdictional investigations that touch on casino operations or involve casino patrons. For example, Special Agents will alert Tribal and casino officials about a criminal suspect from another state who attempts to cash fraudulent checks at an Arizona casino. That suspect may be under investigation by police in another jurisdiction. Special Agents will work with Tribal officials to exchange information on the suspect and assist in the police investigation.

GAMING DEVICE COMPLIANCE UNIT

There were 13,232 Class III slot machines in operation in Arizona at the end of FY 2007. Virtually every casino slot machine is touched by a Gaming Device Compliance Unit technician each year.

The Unit inspected 13,393 slot machines in FY 2007, or approximately 1,100 slot machines each month, during on-site visits to casinos. That includes the inspection and certification of each of the 2,375 slot machines in one Tribe's casinos when the Tribe upgraded its slot accounting system as part of an expansion.

The Department's Gaming Device Compliance technicians make sure that slot machines (also called gaming devices) meet technical standards, are functioning properly, and pay out the minimum percentage wins mandated in the Arizona Tribal-State Gaming Compact.

All slot machines and game management systems are inspected and tested by an independent testing lab before the machines are even shipped to Arizona. The independent lab certifies that the slot machines pay out the minimum percentage wins required by the Arizona Tribal-State Gaming Compact. The Gaming Device Compliance Unit works in conjunction with the independent lab to make sure the gaming devices and game management systems in Arizona meet rigorous legal and technical standards before the machines are put into play.

Technicians inspect and certify slot machines every time a casino installs a new machine, upgrades software on a machine, or converts a machine to a new game theme. Unit technicians visit the casinos to observe and certify any changes in hardware or software in gaming devices.

The Unit also conducts random, unannounced, spot checks at casinos. Unit technicians inspect the machines, software, and electronic accounting systems to make sure that slot machines pay out their required jackpots and are operating as they should. Under the Compact, the minimum payout for slot machines is 80% of wagers during the expected life of the machine. The minimum payout is 83% for games of skill such as video poker, and 75% for keno video games. Casinos can pay more than the minimum jackpots if they wish.

After on-site visits, technicians relay their findings to the casino's Tribal Gaming Office and follow up with written findings and recommendations. The Unit works with the Tribal Gaming Offices to make certain that all problems are addressed and machines are brought into compliance. Additionally, the Unit works with Tribal Gaming Offices to alert the casinos about malfunctions as the Unit becomes aware of them so that casinos can take steps to correct problems. The Unit also investigates all complaints from casino patrons about a gaming device and assists in the Department's investigations.

Gaming Device Compliance staff must keep pace with new types of gaming devices and technology that come on the market. New computer technology and software are replacing decades-old technology in some gaming machines. For example, some gaming devices that used to be powered by EPROM (Erasable Programmable Read-Only Memory) chips are being supplanted by machines powered by a computer hard drive. In addition, many games are being run with flash cards, the same type of removable cards used to capture photos in digital cameras. Technicians attend training programs and work closely with an independent testing laboratory to keep up with the latest developments. The Unit also alerts the testing laboratory about defects that could be present in similar machines used in other casinos and in other states. The Unit receives briefings from manufacturers of gaming devices before companies seek to introduce new types of machines in Arizona so that any technical problems can be averted before the machines are installed.

Industry peers commend the Gaming Device Compliance technicians' rigorous inspections, as well as their smooth working relationship with Tribal Gaming Offices. The Unit's work was highlighted in the May 2007 issue of Casino Enterprise Management, the leading magazine for casino owners and executives. The magazine said the Arizona Department of Gaming's regulatory system demonstrated "the very best in regulation." The magazine singled out the Gaming Device Compliance Unit for special recognition. Magazine staff spent several days with Department employees and observed Department Gaming Device Compliance technicians during their inspections of slot machines in Arizona casinos.

The Casino Enterprise Management article had this to say about the Department's Gaming Device Compliance technicians: "The field inspections we observed were models of regulatory efficiency that reflected meticulous planning and careful coordination. The inspectors arrived on time and met briefly with their tribal counterparts. Everyone involved knew their precise task. The inspection itself proceeded as a well-choreographed ballet. The machines to be inspected were quickly identified, media pulled and tested, and the games powered up and back online before any patrons even missed them.... The state regulators and the tribal regulators work together for the best interest of gaming and to assure compliant and effective enforcement."

Tribes in Arizona	22
Tribes with Current Compacts	21
Tribes with Casinos	15
Number of Casino Sites	23
Number of Slot Machines	13,232
Number of Poker Tables	213
Number of Blackjack Tables	276
Number of Casinos with live Keno	9
Number of Casinos with Off-track Pari-mutuel Betting	1

Note: For the tribal gaming status listing figures for individual tribes, please refer to the Department web site: www.azgaming.gov

GAMES AND SYSTEMS COMPLIANCE UNIT

The Games and Systems Compliance Unit reviewed hundreds of casino promotions; slot, blackjack, and poker tournaments; new table games and variations of jackpot poker and blackjack; and other new games to ensure that they comply with the Tribal-State Gaming Compact. Tribes must seek prior approval from the Department of Gaming before they can conduct promotions and cash or prize giveaways. The Unit performs its reviews in seven business days or less. In FY 2007, the Unit approved 567 promotions and lotteries, 7 blackjack variation games, 204 jackpot poker tournaments, 52 slot tournaments, 35 blackjack tournaments, 19 jackpot poker variation games, and 6 keno tournaments.

In FY 2007, the Unit worked with the Tribes to revise Appendix F(2) for jackpot poker, a change that allows Tribes to introduce new versions of jackpot poker games in casinos.

The Games and Systems Compliance Unit keeps up with the latest technology and innovations in the fast-changing gaming industry. Every week, new types of casino games, promotions, and technology are being introduced in the marketplace. In consultation with the Tribes and Tribal Gaming Offices, the Unit analyzes new gaming industry technology to determine if the technology is permitted in Arizona under the Compact. The Unit seeks out training and educational opportunities to keep up with emerging trends in gaming and gaming regulation.

GAMING VENDOR CERTIFICATION UNIT

The Gaming Vendor Certification Unit determines the suitability of companies and individuals doing business with casinos in Arizona. Each company, each principal of a company, and key personnel providing gaming services must undergo a thorough background investigation.

The Unit is made up of Special Agents, Financial Investigators, a Compliance Auditor, and Intake Officers. Vendor certification is valid for two years and may be renewed. Once a vendor receives state certification with one sponsoring Tribe, the company is certified to do business with all the Arizona Tribes. In addition, Tribal regulators are required to license each of these vendors.

The vendor certification process includes reviews of financial statements and financial background, regulatory history, customer service track record, and other pertinent information.

After an initial review, the Unit will issue a temporary state vendor certification, pending a final determination on State certification. The Compact requires the Unit to issue temporary State certification within 20 days unless the background investigation discloses that the applicant has a criminal history or the Department has other sufficient grounds to disqualify the applicant based on the initial review of the application.

The Unit certifies all vendors (other than regulated lending institutions) providing financing to Tribes for gaming facilities, all management contractors engaged by a Tribe to assist in the management or operation of a gaming facility, all manufacturers and distributors of gaming devices, and all persons providing services to casinos in excess of \$10,000 in any one month. The Unit analyzes the type of activity, product, or service to determine whether a company must be certified.

Manufacturers and distributors of gaming devices, playing cards, card tables, and other items used in the play of Class III games undergo a particularly rigorous investigation. This includes on-site visits to company headquarters and manufacturing facilities, reviews of company documents including Board of Directors minutes and financial audits, and face-to-face interviews with key personnel (including all of the board members of the vendor company and its parent company for firms providing gaming products or services) and rank-and-file employees.

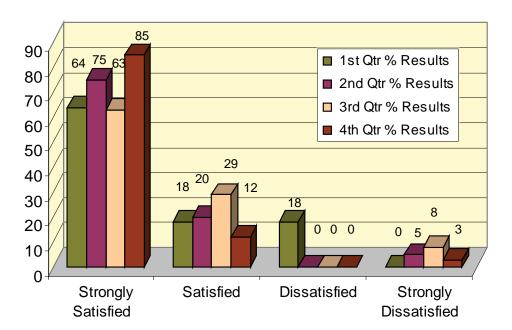
Increasingly, the Unit deals with vendor applications that are becoming more complex and international in scope. With globalization and corporate mergers, a growing number of gaming vendors now are affiliated with multinational companies with offices or headquarters overseas. Unit investigations involve not only the vendor's office and factories in the United States, but they often include reviews and in-person interviews conducted at the vendor's international offices, parent companies, and corporate affiliates.

On-site visits to vendor companies are important to gain an understanding of a company and its operations, including both who controls its day-to-day operations and its manufacturing and technical standards. For example, personal observations may reveal the level of security and internal controls a gaming device manufacturer employs to prevent anyone from tampering with slot machine equipment sold to casinos.

The Unit facilitates discussions with the Tribal Gaming Offices about the Department's process and procedures for state certification of vendors. The Unit has revised vendor certification guidelines and attempted to make the certification process more transparent to casino operators and Tribal Gaming Offices.

The Unit also conducts investigations and takes enforcement action against vendors found to be unsuitable for the gaming industry. The Unit assists with investigations conducted by other law enforcement agencies and by Tribal Gaming Offices. In FY 2007, the Department for the first time imposed fines against vendors. The fines are a new remedy against companies that violate the Compact and are designed to deter wrongdoing and improve compliance with the Compact.

GAMING VENDOR CERTIFICATION UNIT SURVEY RESULTS CUSTOMER OVERALL SATISFACTION WITH UNIT



July 2006 though June 2007

GAMING EMPLOYEES CERTIFICATION UNIT

The Gaming Employee Certification Unit is responsible for doing background checks on employees and prospective employees to ensure that only individuals who are suitable to work in the gaming industry are hired. Each gaming employee or prospective employee must undergo a thorough background investigation. The Unit also conducts investigations of individuals whose suspicious conduct may be a threat to the public interest, and the Unit will seek to remove them from the industry.

The rigorous certification process includes criminal background checks, fingerprints, credit history reports, financial background screenings, work history, review of criminal cases or civil litigation, education, personal and professional references, tax records, and other checks. The Unit's reviews of key casino executives are even more exacting. They include in-person interviews conducted by Unit investigators; full reviews of the executives' financial holdings, brokerage accounts, and tax information; interviews with professional and personal associates; and other items.

The Gaming Employee Certification Unit issues state certification to non-Tribal gaming employees. An employee certified by the Unit is certified to work in any Arizona casino. The Unit also issues recommendations to Tribal Gaming Offices on whether the TGO should issue Tribal gaming licenses to Tribal members who apply to become gaming employees.

In FY 2007, the Unit completed background investigations on 1,737 non-Tribal members and 504 Tribal members, for a total of 2,241 new employee investigations. Additionally, the Unit completed 5,859 non-Tribal member certification renewals and 1,773 Tribal member licensing renewal recommendations, for a total of 7,632 renewal investigations.

The Unit works closely with Tribal Gaming Offices to certify employees. Typically, an employee or prospective employee applies for State certification through the Tribal Gaming Office of the casino that wants to employ the person. The TGO will seek certification with the Department of Gaming on a non-Tribal employee's behalf, triggering the Employee Certification Unit's investigation. After an initial review, the Unit will issue a temporary certification, pending the completion of the background investigation or other checks such as interviews or court documents. The Compact requires the Unit to issue temporary State certification within 20 days of receipt of a complete application unless the background investigation discloses that the applicant has a criminal history or the Department has other sufficient grounds to disqualify the applicant based on the initial review of the application. In FY 2007, the Unit averaged 12.7 days to issue a temporary certification to an employee.

After the full review is complete, the Unit will either issue the person a full State certification, valid for one year, or deny the person certification. In FY 2007, the Unit averaged 45 days to complete certification for a new employee. Employees must be recertified every year to continue working in Arizona casinos.

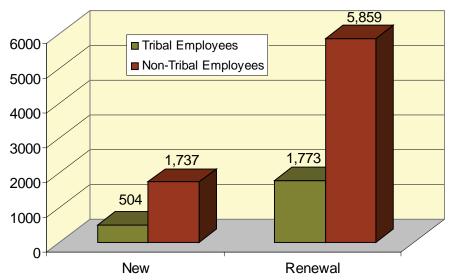
In FY 2007, the Gaming Employee Certification Unit averaged 58 days to issue renewals of State certification. If a certified employee is hired by another casino, the new casino must notify the Department of its new hire and verify the employee's certification status with the Department.

The Employee Certification Unit visits with Tribal Gaming Offices to strengthen cooperation, review past practices, and examine ways to improve the regulatory process. It reviews casino incident reports relating to gaming employee actions or violations of the Compact or casino internal controls. In FY 2007, the Unit made 31 visits to Tribal Gaming Offices to further this collaborative effort.

In FY 2007, the Unit processed 1,998 fingerprints for waitresses, cooks, housekeeping personnel, landscapers, and other support employees whose jobs are ancillary to the gaming operations. These individuals are not required to have State certification, but they are required to be licensed by the Tribe. This service helps the Department when it conducts its annual Compact Compliance Reviews relating to Tribal Gaming Offices' obligations to conduct background investigations on Tribal employees and properly issue Tribal gaming employee licenses.

In addition, the Unit conducts investigations and takes enforcement action against individuals found to be unsuitable for the gaming industry. The Unit has cooperated with and assisted in criminal enforcement investigations concerning casino employees.

In doing its day-to-day work, the Unit uses IDPoint, the Department's electronic licensing and regulatory data system that enables the Department to keep a complete chronology and details of an applicant's certification and renewals. Records technicians electronically scan all applications, photos, fingerprint cards, correspondence, and other paper documents into IDPoint, where they are stored for instant reference. The system can also receive electronic copies of an applicant's credit history information from the credit reporting agencies. Unit employees can enter notes of key events, such as applicant interview dates, into the IDPoint system. Automating the process speeds the certification process and reduces human errors.



GAMING EMPLOYEE CERTIFICATION UNIT APPLICATIONS PROCESSED JULY 2006 THROUGH JUNE 2007

OFF-RESERVATION GAMBLING

The Department's Chief Enforcement Officer provides guidance on gambling conducted offreservation. These include poker tournaments in bars and other businesses, which may offer social gambling card games to increase customers. The Department fields queries from the public on charitable gambling, which has become a popular way to raise money for non-profit groups, parent-teacher associations, homeowner associations, and other entities. There are strict requirements concerning social and charitable gambling activities in Arizona. Players must ensure that their gambling activities meet the exceptions specified in the Arizona Revised Statutes. The Department cooperates with the Arizona Department of Liquor Licenses and Control to inform the public about the rules governing off-reservation gambling so that the public may enjoy these games while complying with the law.

INTELLIGENCE UNIT

The Intelligence Unit gathers and disseminates information involving threats to gaming operations, patrons, and the public.

Disseminates Data on Suspicious Activities

The Unit gathers data on suspicious or criminal activity from each Tribe and disseminates it to all the casinos in the State. Intelligence bulletins are produced and distributed within 24 hours of receipt of information from a Tribe. By acting as a clearinghouse for Tribal data, the Unit helps all the Tribes better protect gaming operations and the public. Tribes can shift their security and surveillance assets and personnel based on information they receive from the Department of Gaming.

Criminal Data Tracking System

The Tribes supply monthly reports to the Intelligence Unit, identifying patrons who have been barred from their facilities for suspicious or criminal activity. These reports are reviewed, summarized, and compiled into data charts. The charts compare criminal activity in the individual gaming facilities to aggregate data on criminal activity for all the gaming facilities in the State. The Intelligence Unit sends the charts to each Tribe so that the Tribe can take appropriate action and target suspicious activities in its own facilities.

Liaison Between Tribes and Other Agencies

The Intelligence Unit at times acts as a liaison between the Department, the Tribes, and other state, county, and municipal law enforcement agencies. For example, a law enforcement agency might ask the Unit to enlist a Tribe's help gathering information about a possible criminal suspect who frequents casinos. The Unit will work with the Tribe to obtain information about the suspect's presence in Arizona casinos.

Cheating Crimes

The Intelligence Unit tracks instances of cheating and disseminates bulletins to the Tribes so they can be on guard against suspicious individuals or fraudulent activity. This analysis helps improve security and surveillance. One example of cheating by patrons is "bet capping" at blackjack games. In this scheme, a player will surreptitiously place extra chips on his pile while the dealer's attention is diverted. Because each chip represents money, the extra chips will give the player a bigger jackpot win than he's entitled to.

Counterfeit Currency Tracking

The Intelligence Unit works with Tribes and other law enforcement agencies to track and attempt to curb the circulation of counterfeit currency in casinos. Using information provided by the casinos, the Unit maintains a database of suspicious currency, including serial numbers, and a trail of where that money has traveled. The Unit distributes this information to the casinos, which then can compare the counterfeit reports and currency serial numbers against a suspicious bill that a patron presents to the casino.

Forged Instrument Tracking

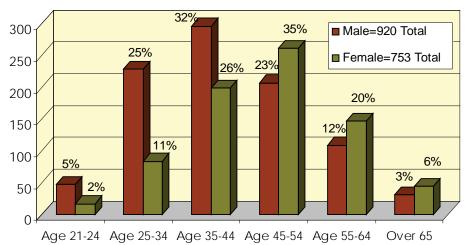
Similar to the way cheating crimes and counterfeit currency are tracked, the Intelligence Unit also tracks forged instruments. The Unit developed a new computerized system in FY 2007 to help prevent the use of fraudulent checks in casinos. The database includes details on forged, stolen, and altered bank checks, cashier's checks and money orders. The Unit will distribute this information to the casinos so they can be on guard against fraudulent checks.

W-2G Jackpot Tracking

The Intelligence Unit receives annual reports from each Tribe on individual patrons' taxable casino winnings. These "W-2G Patron Payout" statements list the names of patrons who have won \$1,200 or more on slot machines or \$600 or more on card games. Patrons must pay income taxes on the amounts shown on W-2Gs. Tribes send this information in various ways and in different formats. In FY 2007, the Intelligence Unit developed a way to convert these multiple formats into a common format that can be maintained in a centralized, searchable database. The Department expects to use this new database for tracking and investigative purposes.

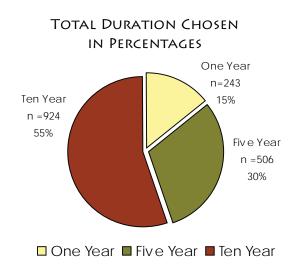
Patron Self-Exclusion Process

The Intelligence Unit plays a crucial role in helping problem gamblers help themselves. The Unit administers a problem gambler self-exclusion program. It compiles and sends to the Tribal Gaming Offices a list of people who have voluntarily chosen to exclude themselves from Arizona casinos. The number of people in the self-exclusion program increased 29 percent to 1,673 people in FY 2007 from the previous fiscal year. Individuals can choose to be self-excluded for one, five, or ten years. The list is updated several times a week so that casino officials have the most current information and photos on self-excluded patrons. A patron who is self-excluded cannot collect any winnings or jackpots from a casino. The Unit works closely with the Department's Office of Problem Gambling to direct patrons to further assistance.

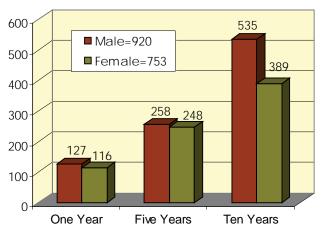


SELF-EXCLUDED MALE AND FEMALE AGE GROUPS As of June 30, 2007

The chart below left represents the percentage of individuals choosing each time period of self-eclusion, and the chart at right indicates the chosen self-exclusion periods by gender.



DURATION CHOSEN BY GENDER



AUDIT UNIT

The Audit Unit is responsible for auditing Tribal casinos for compliance with the Tribal-State Gaming Compact and its appendices and tribal contributions requirements.

The Compact and its appendices contain detailed regulatory, technical, and internal control standards for the operation of Indian gaming. Every year, the Department of Gaming conducts on-site audits of each casino. These audits are called Compact Compliance Reviews and are led by the Audit Unit. A Compact Compliance Review team typically includes 10 to 12 Department employees who visit the casino and review the gaming facility's performance and procedures. The Department reviews hundreds of items ranging from cash-handling procedures to video surveillance to casino giveaways of free meals.

Compact Compliance Reviews last from one to two weeks. The Compact Compliance Review teams include members from the following Department of Gaming Units: Audit, Gaming Device Compliance, Tribal Investigations and Inspections, Gaming Vendor Certification, and Gaming Employee Certification. Team members fan out across the casino and observe casino operations, interview workers and management, and review casino records and surveillance videos to assess whether the casino is following minimum internal control standards that assure compliance with the Gaming Compact.

In a typical test of a casino's procedures, staff from the Audit Unit review surveillance tapes showing how casino employees replenish chips on a blackjack table. A chip is equivalent to cash. During a game, when a card dealer is running low on the bank of chips at his or her table, the supervisor will order additional chips and fill out a form requesting the chips from the casino's "cage" or cashier's window. The supervisor gives the form to a runner who goes to the cage to pick up the chips. At the cage, the runner and cage cashier must jointly count the chips being requested and sign the request form after verifying the amount. The runner then takes the chips to the table, where the dealer and supervisor again count the chips and sign the form. All of these employees' movements are constantly being recorded on the casino's videotapes. The Audit Unit team will look at videotapes and written records to see that procedures are being followed precisely to account for all the cash, chips, and tickets that flow through the casino every day.

After the Department's visit to the casino, the Audit Unit sends Tribal regulators a preliminary report detailing all the issues that may be non-compliant. The Tribe responds to the report in writing, letting the Department know the status of any proposed fixes or explaining why the Tribe feels justified in following certain practices. Most discrepancies are resolved and brought into compliance by the Tribes during this period. Tribes will explain what steps they are taking to address the Department's preliminary findings of non-compliance. After follow-up and review, the Department issues a final report to the Executive Director of the Tribal Gaming Office indicating which outstanding issues still have not been resolved. Even after the final report is issued, the Audit Unit continues to work with the Tribe to resolve any remaining issues.

Additionally, the Audit Unit verifies that each Tribe accurately makes its Tribal contributions to the State, cities, counties, and towns. Under the Arizona Tribal-State Gaming Compact, Tribes in Arizona that engage in gaming have agreed to contribute a portion of their Class III net win each year to programs that benefit the people of Arizona. "Class III net win" means gross gaming revenue, which is the difference between gaming wins and losses, before deducting costs and expenses. Class III games authorized in Arizona include slot machines, jackpot poker, blackjack, keno, and off-track pari-mutuel wagering. Tribal contributions fund education, healthcare, wildlife conservation, and other programs.

A Tribe's contribution is calculated on a sliding scale based on the amount of the Tribe's Class III net win. A Tribe pays 1% in contributions for its first \$25 million in Class III net win, 3% of the next \$50 million, 6% of the next \$25 million, and 8% of the Class III net win in excess of \$100 million.

TRIBAL CONTRIBUTION BREAKDOWN

12 percent to cities, towns, and counties of the Tribe's choosing:

Twelve percent of a Tribe's total annual tribal contribution is distributed by the Tribe directly to cities, towns, and counties of the Tribe's choosing. The money is to be used for government services that benefit the general public, including public safety, mitigation of the impacts of gaming, and promotion of commerce and economic development. Instead of or in addition to contributing money directly to cities, towns, or counties, a Tribe may make its 12 percent contribution to the Commerce and Economic Development Commission Local Communities Fund. Each Tribe can make its contribution to cities, towns, and counties whenever it chooses as long as it is done by the end of the Tribe's fiscal year. Tribes are required to report their contribution to the Department, which verifies the reports.

88 percent to Arizona Benefits Fund:

The other 88% of a Tribe's total annual Tribal contribution goes to the Arizona Benefits Fund on a quarterly basis:

\$8 million or 9% of Tribal contributions, whichever is greater, goes toward the payment of the Department of Gaming's regulatory and administrative costs.

2% of contributions is to be used to fund programs for the prevention and treatment of, and education concerning, problem gambling.

The Department disburses the remaining Tribal contributions in the Arizona Benefits Fund according to the following formula:

56% to the Instructional Improvement Fund administered by the State Department of Education. Every school district receives a portion of this Fund. Disbursement is based on a district's percentage of the total per capita number of public school students in the State.

28% to the Trauma and Emergency Services Fund administered by the Arizona Health Care Cost Containment System (AHCCCS).

8% to the Tourism Fund administered by the State Office of Tourism.

8% to the Arizona Wildlife Conservation Fund administered by the State Game and Fish Commission.

The Department makes an annual report on Tribal contributions and gaming revenue to the public, the Governor, the Speaker of the House of Representatives, the President of the Senate, and the Tribes no later than 90 days after the close of the State's fiscal year. This report contains the following information for the state fiscal year:

Aggregate gross gaming revenue for all gaming Tribes in Arizona. Aggregate revenue deposited in the Arizona Benefits Fund, including interest. Distributions made from the Arizona Benefits Fund to each fund recipient. Aggregate amounts contributed by all Tribes to cities, towns, and counties.

TRIBAL CONTRIBUTIONS PAYMENTS TIMELINE

Tribes must send their quarterly payment to the State by the 25th day after the close of the Tribe's fiscal quarter. The State received the first quarterly payment under the current Tribal-State Gaming Compact on July 25, 2003 (FY 2004).

The Department reports the aggregate quarterly and annual Tribal contribution amounts after the Audit Unit's Tribal Contributions Section verifies their accuracy. The Audit Unit conducts on-site audits of each Tribal gaming operation every year, evaluating internal controls to gain reasonable assurance that the casino is properly accounting for revenue. These audits, called Tribal Contributions Reviews, are in addition to the annual Compact Compliance Reviews. During the Tribal Contributions Reviews, the Audit Unit reviews each casino's operation to ensure accurate financial reporting for each type of gaming activity.

Distribution	Fiscal Year Total
Department of Gaming for administrative and regulatory expenses	\$8,000,000.00
Department of Gaming for treatment, education, and prevention of problem gambling	\$1,621,758.14
Instructional Improvement Fund	\$40,021,044.55
Trauma and Emergency Services Fund	\$20,010,522.28
Tourism Fund	\$5,717,292.07
Arizona Wildlife Conservation Fund	\$5,717,292.07
Total Contributions to Arizona Benefits Fund	\$92,224,129.39
Tribal Contributions to cities, towns, counties	\$11,375,743.78
Total FY 2007 Tribal Contributions	\$103,599,873.17

FY 2007 DISTRIBUTION OF TRIBAL CONTRIBUTIONS

For a chart of cumulative Tribal Contributions from 2003 to present, go to www.azgaming.gov



Havasupai Indian Tribe – Supai (Grand Canyon) Hualapa Indian Tribe – Peach Springs Kaibab Band of Paiute Indians – Fredonia Navajo Nation – Window Rock San Juan Southern Paiute Tribe Zuni Tribe – Highway 180

FINANCIAL SERVICES UNIT

The Financial Services Unit is responsible for the Department's budget, accounts payable and receivables, billing for application fees and reimbursement of investigative costs for state certification, payroll, and other financial functions. One of the Department's state performance pay goals is to pay its invoices within 15 days of receipt, although the time frame under state law is 30 days. In FY 2007, the Unit paid the Department's invoices on average under five days, well exceeding the Department's goal.

The Financial Services Unit also receives and disburses the Tribal contributions, which are paid by the gaming Tribes on a quarterly basis. The Unit deposits the money into the Arizona Benefits Fund and then transfers the money to the recipient funds on a timely basis. In FY 2007, the Unit transferred the money on average within two days of the Department receiving it from the Tribes. The Financial Services Unit then invests the money that is allocated and appropriated to the Department and the Office of Problem Gambling. The earned interest is then disbursed to the Arizona Benefits Fund recipients at the end of the fiscal year. The goal is to maximize interest earnings for the benefit of the recipients. In FY 2007, the total interest earned and disbursed was \$41,347.90, up significantly from the \$11,211.67 earned and disbursed in FY 2006.

In FY 2007, the Financial Services Unit enhanced some of its procedures to save both time and money. For example, the Unit implemented duplex printing of online statements, reports, and travel documents. It began e-mailing bills and statements to out-of-country companies for the incurred costs of their background investigation for state certification. The Unit identified and took advantage of early registration for training and travel to receive discounted rates. The Unit also identified continuing professional education trainings for multiple certifications so that Department staff could earn required credits for more than one certification by attending at a single location.

Many Department employees are required to travel both in-state and out-of-state to perform audits in casinos, inspect and certify gaming devices and systems, conduct in-person interviews and investigations of companies and gaming employees, meet with Tribal and other regulators, and perform other duties as part of their work for the Department. Arizona's Indian casinos are scattered throughout the State. Many companies doing business with Arizona casinos are headquartered outside the State, creating the need for Department employees to travel extensively for effective enforcement of gaming regulations. The Department's complex travel requirements are handled by staff in the Financial Services Unit. In FY 2007, Unit staff conducted a review of hotels within state per diem rates near the Arizona Indian casinos and established contacts with the hotels most likely to be used by Department. The review led to cost savings for the Department and improved risk management for the agency.

In FY 2007, the Unit's Facilities Administration/Procurement staff implemented cost-saving measures. It reduced paper use by adding scanning features to Department photocopiers. The feature allows staff to make electronic scanned copies of documents that can be saved on their computers. In addition, the Unit audited the Department's cell phone plans and usage, which led to a consolidation of plans to those that provide the best value to the Department and resulted in significant cost savings.

DEPARTMENT OF GAMING REVENUE AND EXPENDITURES

Fiscal Year 2007 Revenue	Enforcement/ Problem Gambling	Certification
Total Revenue	¹ 10,144,706.79	1,821,238.13
Fiscal Year 2007 Expenditures		
Personal Services	4,593,7760.90	1,162,346.00
Employee Related Services	1,563,337.65	359,611.62
Professional & Outside Services	1,616,403.23	22,456.59
In-State Travel	253,873.58	7,786.06
Out-of-State Travel	93,792.35	107,903.80
Other Operating Expenses	1,426,505.47	42,631.69
Equipment	196,443.61	0.00
² Transfers	9,100.16	375.00
Total Expenditures	9,753,216.95	1,703,110.76
³ Transfer	391,489.84	

¹ Includes \$300,000 from the Lottery Fund

 $^{^{\}rm 2}$ To the Office of Administrative Hearings

 $^{^3}$ Pursuant to A.R.S. § 5-601.02, transferred remaining funds to the Department of Education, Instructional Improvement Fund.

INFORMATION TECHNOLOGY

In FY 2007, the Information Technology Unit converted most of the Department's physical servers to virtual servers by using Virtual Machine Ware (VMware) software. By implementing VMware, the Unit reduced the number of physical servers from 21 to 6 by hosting multiple servers on a single physical platform. As a result, the Department's electricity and cooling costs are lower, and the Department's secure computing space is better utilized. Additionally, virtualization allows the Department to manage its servers more effectively and efficiently from a single computer workstation and has improved the Department's disaster recovery ability.

The Information Technology Unit also worked with the Audit Unit to identify its audit software needs. The Information Technology Unit searched for software to meet those needs and selected an audit software program to enable the Audit Unit to perform its work more efficiently both in the field and in the office. In FY 2007, the Information Technology Unit successfully tested the software and then began implementation. The Information Technology Unit also upgraded the Department's internal accounting system software.

The Information Technology Unit expanded the capability of the agency's electronic gaming regulatory system database so that the Department's Gaming Device Compliance Unit technicians working in the field can create reports by remote access. This enables the technicians to complete their work in a more timely and efficient manner.

HUMAN RESOURCES

The Human Resources Unit coordinates employee recruitment, assists employees with benefits, facilitates professional development of staff, and assists in resolving Department personnel issues. With the assistance of the Human Resources Unit, several Department employees are working toward college degrees and others are enrolled in the Certified Public Manager Program and the Arizona Public Executives Program. The Unit has taken the lead in the Department's push to increase the number of in-house employee trainings to save on the travel and lodging costs of attending trainings off-site. In FY 2007, the agency conducted or sponsored ten in-house training classes.

The Unit also works to increase minority representation among Department staff by broadening its recruiting drives and attendance at job fairs to attract a larger pool of minority applicants. During FY 2007, the Department of Gaming completed 18 recruitments. Of the recruitments, 11 were members of minority groups.



The mission of the Office of Problem Gambling (Office), a unit within the Department, is to provide and support problem gambling prevention, treatment, and education programs throughout Arizona. The Office reaches out to the public to increase awareness of problem gambling. It coordinates the training of licensed counselors throughout the State who work under contract to treat people with gambling problems and those affected by another's gambling problem. No one is turned away from treatment because of inability to pay. Clients are encouraged to contribute to treatment costs and many do.

Helpline

The Office of Problem Gambling sponsors a toll-free help line (800-NEXT-STEP) for problem gamblers, family members, and others seeking help. Beginning in FY 2007, callers were given a new option: to be transferred directly to the office of an Arizona problem gambling counselor to schedule a treatment appointment (a "warm transfer"). During FY 2007, 201 of the 931 callers chose that option. Also during FY 2007, the Department of Gaming hired a firm to make regular quality-check calls in order to ensure a high level of customer service.

Treatment

During FY 2007, 778 clients received treatment from counselors under contract with the Department of Gaming. This represents a 19% increase from the previous fiscal year. In addition, eight new providers entered into contracts to treat problem gamblers—three in the Phoenix metro area and five serving Tucson. At the close of fiscal 2007, the Department had contracts with 15 therapists and agencies statewide.

Training

The Office provided 132 hours of basic and advanced training to behavioral health counselors and other interested participants during fiscal 2007—up from 72 hours in the previous fiscal year. There were 149 people who participated in the training. Of the 143 people who participated in a survey, 92% reported that they were either "very satisfied" (64%) or "satisfied" (28%) with the training experience. All licensed behavioral health counselors in the State received a direct mailing inviting them to attend. The Office of Problem Gambling sponsored or participated in professional conferences for social workers, substance abuse counselors, and marriage and family therapists.

Partnerships

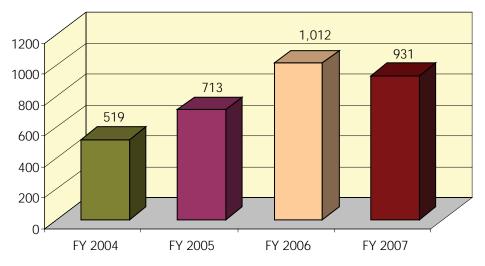
The Office of Problem Gambling held its first symposium, "Critical Issues for Youth and Problem Gambling," to kick off National Problem Gambling Awareness Week the first week in March 2007. The Arizona Lottery, Bucky's Yavapai Casino, Harrah's Ak-Chin Casino, and Gila River casinos cosponsored the event.

In June 2007, the Office of Problem Gambling and the Arizona Criminal Justice Commission collaborated in a joint presentation at the annual conference of the National Council on Problem Gambling in Kansas City, Missouri, on "Substance Abuse and Gambling Among Arizona Youth: Results of the Risk and Protective Survey 2006."

Tribal casinos have increased their commitments to display information, flyers, and messages about problem gambling on their premises, in their advertising, and on web sites. FY 2007 statistics reveal that, for the second year in a row, casinos were the No. 1 way callers learned about the 800-NEXT-STEP helpline.

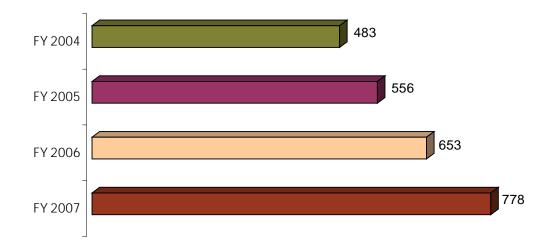
Web site

The Office of Problem Gambling Web site (www.problemgambling.az.gov) continues to be a valuable resource for treatment providers, problem gamblers and those affected by problem gambling, Tribal Gaming Offices, news media, and the general public. The Web site makes available information about problem gambling, press releases, contracting processes for treatment providers, and treatment provider information. In FY 2007, the Office of Problem Gambling Web site received 13,495 unique visitors. Of those, 1,379 retrieved information from the site. The Office has also added a new extensive section on Youth Gambling to the Web site.



OFFICE OF PROBLEM GAMBLING HELPLINE SPECIFIC CALLS

NUMBER OF PERSONS RECEIVING OUTPATIENT PROBLEM GAMBLING TREATMENT



Arizona Department of Gaming

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Flagstaff Office 1338 W. Forest Meadows Drive, Suite 120 Flagstaff, Arizona 86001 928.214.9410

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