CITY COUNCIL AGENDA ITEM
CITY OF SHORELINE, WASHINGTON

AGENDA TITLE:	Casino Profitability and Card Room Gambling Tax Review
DEPARTMENT:	Finance
PRESENTED BY:	Debbie Tarry, Finance Director

PROBLEM/ISSUE STATEMENT:
On March 7, 2005, the City Council adopted Ordinance No. 375, which reduced the City's social card game room gambling tax rate to 10% for a six month period of April 1, 2005 to September 1, 2005. At the same time the City Council also directed staff to do further analysis of the profitability of Shoreline casinos by reviewing audited financial statements and necessary supporting schedules during this same time period.

Attached to this staff report is a Financial Statement Analysis (Attachment A) prepared with the assistance of Moss Adams LLP. This staff report provides a summary of that information.

FINANCIAL IMPACT:
The change in tax rate from 11% to 10% affected the City's 2nd and 3rd quarter gambling tax collections. The 2nd quarter tax collections were received July 30, 2005, and totaled $680,150. This was approximately $68,000 less than if the City had maintained an 11% tax rate during this time period. It is anticipated that each 1% increment in card room gambling tax rate results in $240,000 of annual revenue.

The 2005 budgeted card room gambling tax is $2,650,000. If card room activity meets the average activity that has occurred at each casino for the last six months of the year over the last three years, the City will collect slightly less than the 2005 card room tax budget if the card room gambling tax rate is set at 10% beyond September 30th. If the card room tax rate returns to 11% effective October 1, 2005, then the City may collect slightly more than the budgeted card room gambling tax.

The City currently has a contract not to exceed $10,000 plus direct costs with Moss Adams to assist with the casino profitability analysis. The analysis cost to date has remained within this initial contract limit. Although there is still some contract allowance remaining for additional analysis, if the Council desires significant additional analysis the contract amount may need to be increased.

RECOMMENDATION
Staff recommends that the Council not take any further action and allow the card room gambling tax rate to return to 11% on October 1, 2005, as provided for in Ordinance No. 375, for the following reasons:

- The existing card rooms have a significant competitive advantage in that no new casinos are allowed in Shoreline, and since card rooms are not allowed in Seattle a significant market area is assured.
- As indicated in Attachment B, Shoreline's tax rate on card rooms is well in line with other cities in the region and is consistent with the rate charged in King County. The 11% rate has not created an "uneven playing field". The Shoreline card room tax rate has been in place since incorporation in 1995.
- From a policy perspective it is not an appropriate role for government to determine whether or not casinos are running their businesses efficiently and profitably.
- Excluding the Hideaway, the Shoreline casinos, on average, had a pre-tax profit margin that is consistent with the industry average in 2004.
- Of the four largest casinos (Goldies, Hollywood, Drift-on-Inn, Parkers) three of the four had a positive net income in 2004.
- Profitability can vary from year to year as market and operating changes occur. Goldies and Drift-on-Inn are the only casinos in which we have multiple year financial information. This information shows that Goldies had had net losses for the last four years, but showed significant improvement in 2004. At the same time, Drift-on-Inn has had a positive net income for the last four years, but showed a significant drop in net income for 2004.
- It is very difficult, if not impossible, to determine if the lack of profitability is solely due to the City's gambling tax as opposed to market forces or operator decisions. A 1% reduction in City card room tax rate would obviously increase the net income for each of the casinos. For 2004 this would have ranged from approximately $55,000 for Parkers, Hollywood, and Drift-on-Inn and $70,000 for Goldies, and increased each of the casino's operating profit by approximately 1%. Although a reduction in tax rate of 1% adds more to the bottom line of the casino, it does not appear that this solely would make a significant change in the profitability and/or viability of the casinos.
- The City has seen increasing pressure to balance the need for services to our community with the resources that we receive to provide those services. For each 1% reduction in card room tax, we would anticipate that we would see a $240,000 reduction in revenue. If the gambling tax revenues do decrease the City will need to mitigate this revenue loss with either other revenue increases or expenditure reductions.

Approved By: City Manager ____ City Attorney ___

INTRODUCTION

Attached to this staff report is a draft Financial Statement Analysis of the casinos located within the City of Shoreline (Attachment A). The City's casinos include: The Hollywood Casino, Drift-On-Inn, Goldies, Parkers, Golden Nugget, and the Hideaway. It should be noted that the Hideaway has basically been closed since January of 2005. A summary of the information provided in Attachment A is included within this staff report.

BACKGROUND

In November 2004 some of the casino owners/operators approached the City Council and requested that the City reduce the gambling tax rate applied to card rooms for a year or two, as they claimed that their businesses were not operating in a profitable position. In March 2005, the City Council adopted Ordinance No. 375, implementing a six month reduction in the social game card room gambling tax rate to 10% effective April 1, 2005 to September 30, 2005. Ordinance No. 375 provides that the tax rate will return to 11%, effective October 1, 2005.

At the time that the City Council adopted Ordinance No. 375, they also directed staff to engage Moss Adams to assist in the analysis of the financial statements of the casinos with the use of the individual casino audited Generally Accepted Accounting Principles (GAAP) financial statements.

Prior to 2004 only casinos that had gross receipts of $5 million or more were required to have audited GAAP financial statements. This requirement only applied to two of the casinos located within Shoreline for the last few years: Goldie's and Drift on Inn. In 2004 a new state law was adopted that reduced the audit requirement to $3 million and for those casinos with gross receipts in excess of $1 million to have their GAAP statements reviewed by a licensed CPA. All of the casino's located in Shoreline had gross receipts in excess of $1 million in 2004. Since Goldie's and Drift on Inn were the only casinos required to have audited financial statements prior to 2004, they are the only casinos with any trend analysis information. All other casinos have only one year of operations for our analysis. As you will see in Attachment A, this makes difficult any analysis regarding changes in profitability from prior years.

DISCUSSION

Revenues and Expenses

Attachment A provides detail of a comparison of revenues and expenses for each of the casinos for 2004. This information was taken directly from the audited financial statements provided by the casinos. There were some limitations in analyzing this information, in that certain information is not disclosed within the financial statements and requires more detailed information from the casinos. Those areas which we may be able to obtain additional information prior to the September 12, 2005, Council meeting could include:

- Promotional allowances
- More specific components of the "other operating expenses" and "general and administrative" expense categories.

- Salaries and guaranteed payments to owners

The revenue and expense analysis provides some of the basis for the profitability ratios discussed in the following section.

Profitability Analysis
In analyzing profitability there are certain financial ratios that are reviewed. These include ratios that focus on the following areas:

Liquidity Ratios: Indicates a business's availability of liquid resources (cash, investments, etc.) that could be used to pay current obligations as they become due.
- Current Ratio: A ratio of current assets to current liabilities. A ratio of "1" means that a company has current assets equal to current liabilities and is a rough indication that the Casino has the means to pay for short-term obligations.
- Quick Ratio: This differs from the current ratio in that it is a ratio of liquid assets (cash, cash equivalents, and trade receivables) to current liabilities.

Operating Ratios: Operating ratios are designed to assist in the evaluation of management performance.
- Operating ratios include comparing expenses and profit margin as a percentage of operating revenues.
- Sales to Assets Ratio: A ratio of net revenues to total assets. This ratio is a general measure of a firm's ability to generate sales in relation to total assets.
- Sales to Net Fixed Assets: This ratio is a measure of the productive use of a Casinos fixed assets, net of accumulated depreciation.
- Return on Assets: A ratio of profit ***before*** income and City taxes to total assets.
- Return on Net Assets: A ratio of profit ***after*** City taxes.

The profitability analysis includes ratios for each of the casinos along with a comparison of ratios from the Risk Management Association (RMA). The RMA is a source of objective, unbiased information on issues of importance to credit risk professionals. Moss Adams assisted us in the use of comparisons from RMA for casinos (without a hotel) which generate between two and ten million in annual revenue. All of the casinos within the City, with the exception of the Hideaway, fall within this category. The comparison to the RMA is for the purpose of providing a general guideline and not an absolute industry norm.

The following table summarizes the profitability analysis for each of the casinos for 2004:

	Goldies	Hollywood	Drift-On-Inn	Parkers	Golden Nugget	Hideaway	Shoreline Average 12/31/2004	2-10 MM Casinos RMA 2003/2004	w/o Hideaway Shoreline Average 12/31/2004
Liquidity Ratios									
Current Ratio	0.61	0.12	0.46	1.17	0.19	0.06	0.44	1.80	0.51
Quick Ratio	0.50	0.11	0.35	1.08	0.18	0.05	0.38	1.10	0.44
Operating Ratios									
Operating Expenses	96.6%	95.8%	94.9%	90.6%	95.6%	114.2%	98%	90%	95%
Operating Profit Margin	3%	4%	5%	9%	4%	-14%	2%	10%	5%
Pre-Tax Profit Margin	10%	11%	12%	19%	9%	-20%	7%	11%	12%
Sales To Assets	4.2	3.8	1.7	5.0	4.8	0.7	3.40	2.50	3.93
Sales to Net Fixed Assets	5.9	5.6	11.4	9.6	9.7	14.9	9.50	5.60	8.42
Return On Assets	41.9%	42.0%	58.8%	99.1%	47.6%	-178.9%	18%		58%
Return On Net Assets (Tax)	-1%	11%	26%	47%	-3%	-249%	-28%		16%

More detail regarding the meaning of each of these ratios can be found in Attachment A (pages 6 to 8), but in summary the ratios indicate the following:

- On average the Shoreline casinos have a significantly lower current ratio (current assets to current liabilities) than the RMA average. Cash tends to be the largest current asset held by casinos. This indicates that, on average, the Shoreline casinos do not have the coverage of current assets to current liabilities as that of the industry average.
- Although on average the Shoreline casinos have a lower current ratio, the percentage change between the current and quick ratios tend to indicate that the Shoreline casinos have proportionately more cash in current assets than the industry average, prior to any consideration for jackpots.
- On average, the Shoreline Casinos operating expenses are a greater percentage of operating revenues than the industry standard.
- The average operating profit margin of the Shoreline Casinos (5% - the average with the Hideaway excluded) is below that of the industry average (10%). This corresponds to the higher operating expenditures to operating revenue ratio. Although this is the case when you compare the pre-tax profit margin, this is the profit margin prior to the City gambling tax, the average for the Shoreline Casinos (12%) exceeds the industry average of 11%.
    - The following table shows a comparison of the operating profit margin and the pre-tax profit margin for the four largest casinos if the City's card room tax rate had been at 10% for 2004. Note that the pre-tax profit margin does not change with the tax rate since this is a measure of net income before city taxes as a percent of revenues.

	Goldies	Hollywood	Drift-On-Inn	Parkers	Average	RMA Avg
At 11% Card Room Tax Rate						
Operating Profit Margin	3%	4%	5%	9%	6%	10%
Pre-Tax Profit Margin	10%	11%	12%	19%	13%	11%
At 10% Card Room Tax Rate						
Operating Profit Margin	4%	5%	6%	10%	6%	10%
Pre-Tax Profit Margin	10%	11%	12%	19%	13%	11%

- On average, the Shoreline Casinos generate more revenues from assets (3.93) than the industry average (2.5). None of the Shoreline Casinos own their buildings in which they operate, which could account for this positive comparison.
    - The Drift-on-Inn's sales to assets ratios (1.7) is lower than average due to large related party receivables. Moss Adams assisted us in the preparation of a consolidated balance sheet for Drift-On-Inn, Hollywood Casino, and Old 99 since they are under common ownership. Due to the eliminating entries between entities, Drift-On-Inn's adjusted sales to assets are approximately 4.8 rather than 1.7 which is in line with the other casinos.
- Excluding the Hideaway, Goldies and the Golden Nugget did not generate a positive return on their investment in current and fixed assets in 2004, when the payment of city gambling tax is considered.

As part of the profitability analysis, we performed a cash flow analysis for each of the casinos for 2004, except for the Hideaway and the Golden Nugget. Cash flow data was not provided from the Golden Nugget or the Hideaway. In summary this analysis found that:

- All the casinos had a positive cash flow from operations which averaged approximately $570,000.
    - Depreciation and increased payables to related parties accounts for most to the positive cash flow from operations.
    - If the affects of depreciation and related party payables are removed, then Goldies and Hollywood would have had a negative cash flow from operations for 2004.
    - Drift-on-Inn and Parkers generated more cash from operations than they paid in gambling tax to the City, while Goldies and Hollywood generated less cash from operations than was paid to the City in gambling tax.
- Members or owners of the casinos had average cash draws of approximately $475,000. The owners use draws to pay federal income tax on net income from the casinos and draws also represent the owners return on investment or return of investment. Owners which also work in daily operations may receive compensation in the form of a salary or guaranteed payment. This salary or guaranteed payment is included in expenses rather than a financing activity on the cash flow statement. We did not receive detailed information to perform an analysis of each of the casinos salary expenses to determine if any of the owners received, in addition to their draws, a salary or guaranteed payment.

The full cash flow analysis can be found in Attachment A.

Trend Analysis

Only two of the casinos, Drift-on-Inn and Goldies, provided audited financial statements for years prior to 2004. We were able to provide some trend analysis on these two casinos with this information. The findings from the trend analysis indicate the following:

- The Drift-on-Inn's operating expenses as a percentage of total operating expenses has been increasing annually. Total operating expenses increased by approximately $375,000 from 2003 to 2004, while revenues dropped by approximately $357,000. This drop in revenue may have been affected by the opening of Hollywood Casino in October of 2003. As a result the Drift-on-Inn's net income was lower in 2004 than in previous years.
- Goldies has had net losses every year since 2001. Although this is the case, Goldies showed a much smaller loss in 2004 ($13,906) as compared to 2003 ($282,769). The positive change between 2003 and 2004 net losses appears to be attributable to increased gaming revenues ($1,159,593) rather than the effect of changes in expenses ($890,735). Goldies' card room activity for 2005 shows that card room revenues are approximately $36,000 less for the first two quarter of 2005 than they were for 2004.

2005 Activity

The City has received gambling tax from the casinos for the first two quarters of 2005. A comparison of the first two quarters of card room revenue for the casinos, shows that casino card room revenue for the first two quarters of 2005 is lower than that of 2004. This is primarily because of the closure of the Hideaway. Excluding the Hideaway, card room revenues for the first two quarters of 2005 are lower ($30,842) in 2005 than 2004. Even though this is the case, the level of card room activity for the first two quarters of 2004 and 2005 is significantly higher than card room revenues for the same time period in 2002 and 2003. This tends to indicate that, even with the opening of the Hollywood Casino, overall Shoreline card rooms were able to increase card room revenues.

	2002	2003	2004	2005
Drift-On-Inn	3,202,080	3,573,345	3,100,689	3,009,664
Hollywood	-	-	3,218,071	2,829,963
Golden Nugget	177,278	1,015,860	1,121,304	1,198,396
Goldies	2,898,684	2,919,009	3,423,127	3,386,997
Hideaway	641,612	783,320	587,577	17,495
Parkers	2,388,254	2,232,696	2,556,167	2,963,496
Total	9,307,908	10,524,230	14,006,935	13,406,011

STAKEHOLDERS

Some of the casino operators have requested that the City lower the card room tax rate in order to help them become more profitable. Those owners/operators continue to contend that the City's card room tax rate is too high. A listing of a number of other cities and their card room gambling tax rate is included in this staff report as Attachment B. This list includes six cities that have a lower card room tax rate than Shoreline, two that have the same, and six that have higher tax rates.

Staff has already contacted all of the casinos to let them know that the City Council will be discussing the results of the gambling profitability analysis on September 12th. Staff will be contacting each of the casinos during the week of September 6th to share the results of our analysis.

SUMMARY

Determining the profitability of casinos is difficult in that there are many factors that must be considered when doing so. Based on the analysis that has been completed to date we can assess the following about the City's casinos financial results for 2004.

- Overall the City's casinos have lower liquidity ratios than the industry standard. This means that they have a lower ratio of current assets that could be quickly converted to cash to meet current obligations to that of the industry overall.
- Operating expenses of the casinos as a percentage of operating revenues on average are higher for the Shoreline casinos the industry average. Parkers is the only casino that is at the industry average.
- All Casinos except Hideaway had a positive operating income in 2004.
- Goldies, Golden Nugget and the Hideaway had a net loss for 2004, while all other casinos had a positive net income that ranged from $214,000 to $558,000 for 2004.
- The average pre-tax profit margin of the Shoreline casinos is greater than the industry average. The Golden Nugget and Goldies are 2% and 1% respectively below the industry average, while Drift-on-Inn and Parkers are 1% and 8% respectively greater than the industry average.
- The Operating Profit Margin, which takes into account the City's gambling tax, shows that the Shoreline average is below the industry average.
- The Shoreline casinos are able to generate sales in relation to their assets at a higher rate than that of the industry average. This may be partially attributable to the fact that none of the Shoreline casinos own their buildings.
- All casinos generated a positive cash flow from operations in 2004 which averaged approximately $567,000.
- Trend analysis shows that Drift-on-Inn saw a drop in revenues in 2004 as compared to 2003 and an increase in expenses from 2003 to 2004, resulting in a lower operating income and lower net income in 2004 compared to 2003. At the same time Goldies showed a significant increase in revenues from 2003 to 2004 along with an increase in operating expenses. Goldies increase in revenues was greater than its increase in expenses.
- Shoreline's card room gambling tax rate is lower than some comparable cities and higher than others.
- The card room revenues for the first two quarters of 2005 is below that of the first two quarters of 2004, primarily because the Hideaway is not in operation. Although this is the case, the 2005 first two quarter activity is still significantly greater than the first two quarters in 2003 and 2002.

RECOMMENDATION

Staff recommends that the Council not take any further action and allow the card room gambling tax rate to return to 11% on October 1, 2005, as provided for in Ordinance No. 375, for the following reasons:

- The existing card rooms have a significant competitive advantage in that no new casinos are allowed in Shoreline, and since card rooms are not allowed in Seattle a significant market area is assured.
- As indicated in Attachment B, Shoreline's tax rate on card rooms is well in line with other cities in the region and is consistent with the rate charged in King County. The 11% rate has not created an "uneven playing field". The Shoreline card room tax rate has been in place since incorporation in 1995.
- From a policy perspective it is not an appropriate role for government to determine whether or not casinos are running their businesses efficiently and profitably.
- Excluding the Hideaway, the Shoreline casinos, on average, had a pre-tax profit margin that is consistent with the industry average in 2004.
- Of the four largest casinos (Goldies, Hollywood, Drift-on-Inn, Parkers) three of the four had a positive net income in 2004.
- Profitability can vary from year to year as market and operating changes occur. Goldies and Drift-on-Inn are the only casinos in which we have multiple year financial information. This information shows that Goldies had had net losses for the last four years, but showed significant improvement in 2004. At the same time, Drift-on-Inn has had a positive net income for the last four years, but showed a significant drop in net income for 2004.
- It is very difficult, if not impossible, to determine if the lack of profitability is solely due to the City's gambling tax as opposed to market forces or operator decisions. A 1% reduction in City card room tax rate would obviously increase the net income for each of the casinos. For 2004 this would have ranged from approximately $55,000 for Parkers, Hollywood, and Drift-on-Inn and $70,000 for Goldies, and increased each of the casino's operating profit by approximately 1%. Although a reduction in tax rate of 1% adds more to the bottom line of the casino, it does not appear that this solely would make a significant change in the profitability and/or viability of the casinos.
- The City has seen increasing pressure to balance the need for services to our community with the resources that we receive to provide those services. For each 1% reduction in card room tax, we would anticipate that we would see a $240,000 reduction in revenue. If the gambling tax revenues do decrease the City will need to mitigate this revenue loss with either other revenue increases or expenditure reductions.

ATTACHMENTS

Attachment A – City of Shoreline Financial Statement Analysis
    Attachment A1 – 2004 Industry Comparative Balance Sheet
    Attachment A2 – 2004 Detailed Income Statement
Attachment B – Comparison of Gambling Tax Rates

Draft

ATTACHMENT A

CITY OF SHORELINE CARD ROOMS

FINANCIAL STATEMENT ANALYSIS

December 31, 2004

INTRODUCTION

This analysis was prepared using the information provided from the audited financial statements of the City of Shoreline Card Rooms. Moss Adams LLP was contracted by the City of Shoreline to assist the City staff in their analysis of local card rooms. The following information was used by the City staff to prepare their agenda titled *Casino Profitability and Card Room Gambling Tax Review.*

OUTLINE

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Attachment A1 - 2004 Industry Comparative Balance Sheet
Attachment A2 - 2004 Comparative Income Statement

A. GROSS RECEIPTS - Year ended December 31, 2004

	Goldies		Hollywood		Drift-On-Inn		Parkers		Golden Nugget		Hideaway	
REVENUES												
Gaming	$ 7,015,394	86%	$ 5,753,616	75%	$ 6,365,691	61%	$ 5,455,840	91%	$ 2,476,602	86%	$ 874,213	57%
Food and beverage	1,439,233	18%	2,117,923	27%	2,589,409	25%	525,386	9%	142,369	5%	215,564	14%
Pull-tabs	238,171	3%	-	0%	1,602,563	15%	-	0%	246,814	9%	392,730	26%
Other operating revenue	49,431	1%	228,910	3%	490,488	5%	43,379	1%	5,150	0%	41,396	3%
Less promotional allowance	(574,360)	-7%	(380,840)	-5%	(609,310)	-6%	-	0%	-	0%	-	0%
	8,167,869	100%	7,719,609	100%	10,438,841	100%	6,024,605	100%	2,870,935	100%	1,523,903	100%

a. REVENUE DRIVERS

Traditional methods to increase revenue include increasing the price of a product or reducing the price to increase volume. The gaming industry has regulations to ensure that Casinos can not change the theoretical net win of games so that players have a reasonable chance to win. Therefore, Casinos must use non-traditional methods to increase revenues while limiting revenue losses.

i. Table Games

Gaming revenues include table games and poker revenue. Table games are traditional games such as Black Jack in which the player wagers against the house. The revenues are a net win, which are wagers less payouts. Table games have a theoretical hold percentage which allows the house to have an advantage over the player. However, table game revenues fluctuate from the theoretical hold based upon the luck of the cards, skill of the player, and other factors. Some of the other factors which affect table game revenues are as follows:

Table game dealers require extensive training on each type of game in order to collect wagers when a player loses and accurately pay out chips when a player wins. Good dealers deal more hands per hour in order to increase the number of wagers per hour. Another method to increase hands per hour is through the use of shuffle machines rather than using hand shuffling. In addition, dealers which use consistent technique are preferred because fraud risk can be monitored more easily by surveillance.

Casinos attempt to attract larger wagers by having a minimum dollar value to play the game. 100 wagers at $1 do not have the potential to generate as much revenue as 100 wagers at $5. In addition, there are table games which have bonus payouts and progressive jackpots which require an additional side bet to be eligible for the larger prize. The Washington State Gambling Commission ("WSGC") increased the maximum wager per hand from $100 to $200 last year.

Promotional allowances are common practice within the gaming industry. Promotional allowances or "Comps" are free food given to players to reward play. Generally accepted accounting principles ("GAAP") allow Casinos to include the retail value of food given to customers as revenue. However, the same amount simultaneously decreases revenue on the financial statements. Some Casinos in our analysis chose not to disclose this amount in their financial statements. The cost of the food is included in cost of goods sold under operating expenses.

Table games have a high risk of fraud because it is a cash business. Therefore, the Casino is required per the WSGC to have adequate controls in place to prevent fraud. These controls include gaming licenses for all employees, surveillance (personnel, cameras, and 24 hour taping), security, manager or "pit" person on-site, "cage" or bank to hold cash, detailed documentation trail of transactions, and daily audit of the documentation trail. Inadequate monitoring of revenue controls can lead to significant losses for a Casino. Therefore, gaming controls are included under significant revenue drivers.

ii. Poker

Poker Revenue is derived from non-house banked play. The player does not collect a win from the house, rather each player plays against each other and the house collects a fee for providing the dealer, cards, and table. The maximum fee per hand is $5 or ten percent of the total wager, which ever is less.

Similar to table games, good dealers deal more hands per hour in order to increase the amount of fees per hour. In addition, shufflers increase the number of hands per hour. Promotional allowances are given to poker players to reward play and increase the length of stay at the poker table.

Some Casinos have poker tournaments in which each player buys a set number of chips. Included in the fee to join the tournament is an administrative fee for the Casino. The top players who do not lose all their chips during poker play then split the remaining proceeds from all players. Guaranteed payouts or automatic cash added to a tournament are methods used by Casinos to increase the number of players in a tournament, which can increase the Casino's administrative fees.

A player supported jackpot ("PSJ") is a separate contest of chance directly related to the outcome of poker play, but it is not a card game itself. Casinos can establish an initial prize fund, not to exceed $5,000, and then subsequently collects a separate fee from each player to add to the initial jackpot. The jackpot amount continually rises until a player meets the required hand to qualify for the jackpot prize. The Casino acts as a custodian of the funds and maintains no legal rights to the funds. The Casino is required to hold the funds in a separate bank account and have a designated PSJ fund custodian to safeguard and distribute the funds. Due to this requirement, the Casino is allowed to keep an administrative fee not to exceed ten percent.

iii. Pull Tabs

Pull tabs have a set number of winners in each game which are on display for the player to see. If every pull tab was sold, the Casino would always make money. However, the orders the pull tabs are drawn from the box affect how much the Casino will record as revenue after paying out the winners. Adequate control over pull tab sales reduces the risk of fraud by Casino employees. Effective control of the revenue drivers noted require an electronic pull tab system which allows for monitoring of purchases and wins on a daily basis.

iv. Food and Beverages

Food is required to be served due to the Casinos liquor license. As noted above, food is often given away free in the form of "comps" or sold at a deep discount to attract players to the Casino. Many Casinos offer two for one meal specials and/or serve $1 drinks to players. Due to the lower profit margins of food and beverages as apposed to gaming revenues, Casinos rarely use food and beverage to increase net income. Normally, Casinos which break even (Sales equal food and labor costs) are doing reasonably well compared to their peers. Due to the significant focus on gaming controls rather than all controls, food and beverage revenues are often susceptible to fraud if adequate point-of-sale systems are not utilized.

v. Other Revenue Drivers

Some Casinos use ambiance in order to attract players. Ambiances noted in the Shoreline Casinos include tropical, Hollywood, and island themes which require an investment in décor, lighting, music, props and employer provided uniforms.

In order to keep groups of players in the Casino after one member ceases to play, some Casinos offer other amenities such as pool, darts, entertainment, televisions, and bars.

B. OPERATING EXPENSES – Year ended December 31, 2004

	Goldies		Hollywood		Drift-On-Inn		Parkers		Golden Nugget		Hideaway		Average		
REVENUES	8,167,869	100%	7,719,609	100%	10,438,841	100%	6,024,605	100%	2,870,935	100%	1,523,903	100%	6,124,294		100%
EXPENSES															
Cost of sales	770,158	9%	1,083,438	14%	2,700,856	26%	460,542	8%	330,486	12%	450,320	30%	965,967		16%
Building lease	228,380	3%	300,000	4%	311,841	3%	220,856	4%	not available		not available		265,269	**	4%
Gaming/Equipment Leases	118,007	1%	145,228	2%	109,009	1%	31,970	1%	not available		not available		101,054	**	2%
City taxes	817,192	10%	631,796	8%	707,345	7%	607,555	10%	277,374	10%	119,127	8%	460,648		9%
Other operating expenses	3,605,935	44%	3,840,532	50%	3,746,628	36%	3,243,648	54%	938,611	33%	666,048	44%	2,673,567		44%
Advertising	74,888	1%	315,463	4%	323,118	3%	235,090	4%	not available		not available		237,140	**	4%
General and administrative	1,987,534	24%	918,047	12%	1,826,131	17%	580,911	10%	1,110,097	39%	450,056	30%	1,145,463		19%
Depreciation	289,415	4%	158,948	2%	182,064	2%	78,758	1%	87,216	3%	55,211	4%	141,935		2%
	7,891,509	97%	7,393,452	96%	9,906,992	95%	5,459,330	91%	2,743,784	96%	1,740,762	114%	5,855,972		96%
OPERATING INCOME	276,360	3%	326,157	4%	531,849	5%	565,275	9%	127,151	4%	(216,859)	-14%	268,322		4%

a. Salaries, Wages, Payroll Taxes, and Employee Benefits

The largest expense for Casinos is salaries, wages, payroll taxes, and employee benefits. Many hourly positions have minimum wage employees since additional income is acquired through tips from players. The minimum wage has increased annually in the State of Washington. Some Casinos have chosen to offer better benefits and higher than minimum wage in order to attract the best employees; such as vacation and sick pay, 401 (k) plans, and supplemented medical plans.

Unique positions in the gaming industry include security, surveillance, soft count (daily cash counters), and revenue audit. Each position is required to be independent of gaming operations which may not allow an employee to work multiple positions. This aspect can be challenging if an employee wants to work full-time but the position does not require full-time status. In addition, movement of cash and chips requires the involvement of multiple employees to prevent fraudulent acts. This requirement drives up the cost of daily operations which can be unrelated to revenues.

b. Cost of Sales

Cost of sales includes food, beverage, liquor, and pull tab games. Due to the low volume of purchases compared to other restaurants, Casinos typically pay higher prices for food and beverages.

Taxes and Licenses

	Goldies	Hollywood	Drift-On-Inn	Parkers	Nugget	Hideaway	Average
Taxes as a percentage of revenues	10%	8%	7%	10%	10%	8%	9%
Taxes as a percentage of operating expenses	10%	9%	7%	11%	10%	7%	9%

As noted above, taxes as a percentage of revenues and operating expenses averaged 9% in 2004 for Shoreline Casinos. In other words, 9% of all revenues go directly to the City of Shoreline and 9% of all operating expenses are city taxes. The above analysis does not included B&O taxes, federal wagering taxes on pull tabs, liquor and gaming licenses, or federal income taxes. The Casinos in the City of Shoreline are either Limited Liability Companies or S-Corporations which do not pay income taxes. Income taxes are paid by the owners at personal tax rates (up to 35%) by attributing net income to each member in proportion to their ownership. Each member pay this tax annually even if no cash is withdrawn from the Casino.

	Goldies		Hollywood		Drift-On-Inn		Parkers		Golden Nugget		Average	
REVENUES	8,167,869		7,719,609		10,438,841		6,024,605		2,870,935		7,044,372	
EXPENSES (before city tax)	7,074,317		6,761,656		9,199,647		4,851,775		2,466,410		6,070,761	
Operating Income (before city tax)	1,093,552	100%	957,953	100%	1,239,194	100%	1,172,830	100%	404,525	100%	973,611	100%
City taxes	817,192	75%	631,796	66%	707,345	57%	607,555	52%	277,374	69%	608,252	64%
OPERATING INCOME	276,360	25%	326,157	34%	531,849	43%	565,275	48%	127,151	31%	365,358	36%
OTHER INCOME (EXPENSE)	(290,266)	-27%	(111,896)	-12%	26,876	2%	(6,464)	-1%	(142,809)	-35%		
NET INCOME	(13,906)	-1%	214,261	22%	558,725	45%	558,811	48%	(15,658)	-4%		
Net income as a multiple of city taxes	58.8		2.9		1.3		1.1		17.7			

City taxes as a percentage of operating income before taxes averaged 64% in 2004 or 64% of operating income was used to pay city taxes for five of the six Casinos analyzed. Net income as a multiple of city taxes ranged from 1.1 to 58.8 or the City of Shoreline collected 1.1 to 58.8 times in taxes in comparison to each Casino's net income.

d. Building Lease

We noted that none of the Casinos own the building in which the casino operates. However, some Casino owners (related parties) own the building and collect lease payments from the Casino. We did not note a significant difference between lease payments to related and unrelated parties.

e. Gaming equipment leases

Individual table games are franchised which require a monthly fee to use the game. Card shufflers can be expensive, so many Casinos will lease shufflers rather than purchase the shuffler and pay maintenance and replacement costs in the future.

f. Advertising and Marketing

The Casinos is in the City of Shoreline are competing with each other as well as Tribal Casinos. Therefore, advertising and marketing expenses are necessary to attract players.

g. Insurance

Medical and property insurance expense have increased substantially in the last few years for the majority of small businesses.

h. Repairs and Maintenance

Repairs and maintenance expense for surveillance and restaurant equipment is higher for Casinos that have not invested in newer equipment.

i. Professional Fees

Audit fees have increased in the last two years due to a new auditing standard which requires specific procedures during the audit related to fraud. In addition, the WSGC lowered the audit requirement threshold from $5 million to $3 million in gross gaming revenues. Casinos with $1 to $3 million in gaming revenues are now required to have their financial statements reviewed. This new requirement took effect for years ending after July 31, 2004. Annual audits can range from $15,000 to $20,000 depending on the complexity and size of the Casino. Annual reviews can range from $8,000 to $12,000.

Attorney fees can be higher for Casinos compared to other small businesses due to a higher instance of law suits.

C. PROFITABLITY ANALYSIS

DISCLAIMER:

The following ratio and cash flow analysis is limited to one year of audited financial statements. Therefore, changes in profitability from prior years can not be determined by this analysis. However, we included trend analysis for two Casinos in which four years of audited statements were available in order to analyze profitability over the last four years.

a. Ratios Analysis

The Risk Management Association ("RMA") is the most respected source of objective, unbiased information on issues of importance to credit risk professionals. We utilized RMA's *Annual Statement Studies: Financial Ratios Benchmarks* for Casinos (without a hotel) which generate between two and ten million in revenue. There may be several reasons why the data may not be representative of a given industry, to include: Sample size, sample not random, extreme statements, geographical locations, product lines, etc. Therefore, RMA recommends that the data be used as a general guideline and not an absolute industry norm.

There are general categories of ratios which we selected based upon the gaming industry and the Shoreline Casinos, which include liquidity and operating ratios. Liquidity is a measure of the quality and adequacy of current assets to meet current obligations as they come due. In other words, can a Casino quickly convert its assets to cash in order to meet its immediate and short term obligations? These ratios provide a level of comfort to lenders. Operating ratios are designed to assist in the evaluation of management performance.

	Goldies	Hollywood	Drift-On-Inn	Parkers	Golden Nugget	Hideaway	Shoreline Average 12/31/2004	2 -10 MM Casinos RMA 2003/2004	w/o Hideaway Shoreline Average 12/31/2004
Liquidity Ratios									
Current Ratio	0.61	0.12	0.46	1.17	0.19	0.06	0.44	1.80	0.51
Quick Ratio	0.50	0.11	0.35	1.08	0.18	0.05	0.38	1.10	0.44
Operating Ratios									
Operating Expenses	96.6%	95.8%	94.9%	90.6%	95.6%	114.2%	98%	90%	95%
Operating Profit Margin	3%	4%	5%	9%	4%	-14%	2%	10%	5%
Pre-Tax Profit Margin	10%	11%	12%	19%	9%	-20%	7%	11%	12%
Sales To Assets	4.2	3.8	1.7	5.0	4.8	0.7	3.40	2.50	3.93
Sales to Net Fixed Assets	5.9	5.6	11.4	9.6	9.7	14.9	9.50	5.60	8.42
Return On Assets	41.9%	42.0%	58.8%	99.1%	47.6%	-178.9%	18%		58%
Return On Net Assets (Tax)	-1%	11%	26%	47%	-3%	-249%	-28%		16%

i. Liquidity Ratios

The current ratio is total current assets divided by total current liabilities. The ratio is a rough indication of a Casinos ability to service its current obligations. Current assets include cash, accounts receivable, inventory and prepaid expenses. Cash is the largest current asset held by a Casino either as a bankroll for daily Casino operations or cash in the bank to pay employees and vendors. The Shoreline Casinos are significantly lower than the RMA average even with the effect of Hideaway removed from the average. (Hideaway is no longer in operations).

The quick ratio is calculated by dividing cash and trade receivables by total current liabilities. Trade receivables include checks returned for non-sufficient funds which are usually minimal. The difference between RMA's current ratio and quick ratio compared to the Shoreline average is 39% and is 14%, respectively. This indicates that the Shoreline Casinos have proportionately more cash in current assets than the industry average. However, the effects of restricted cash for jackpots and player supported jackpots have not been factored into this analysis due to lack of information. We did note that Drift-On-Inn Roadhouse Casino, LLC disclosed $214,977 in restricted cash to be used to cover all jackpots offered to gaming participants.

i. Operating Ratios

Sales to assets are calculated by dividing net revenues by total assets. This ratio is a general measure of a firm's ability to generate sales in relation to total assets. It should be used only to compare firms within specific industry groups and in conjunction with other operating ratios to determine the effective employment of assets. The higher the ratio, the more revenues are generated from total assets.

On average, the Shoreline Casinos generate more revenues from assets than the industry average. However, none of the Casinos own the building in which they operate which could account for this positive comparison. Drift-On-Inn's sales to assets ratio is lower than average due to large related party receivables. The receivables from Old 99 and Hollywood Casino totaled $3,946,102 at December 31, 2004. We prepared a consolidated balance sheet for Drift-On-Inn, Hollywood Casino, and Old 99 since they are under common ownership. Due to the eliminating entries between entities, Drift-On-Inn's adjusted sales to assets are approximately 4.8 rather than 1.7 which is in-line with the other Casinos. Hideaway Casino had a similar receivable for $1,975,020 with a related party, the effects of which were not calculated for this analysis.

The sales to net fixed assets ratio is a measure of the productive use of a Casinos fixed assets, net of accumulated depreciation. The Shoreline Casinos are above average compared to the industry norms which indicates that the fixed assets purchased are creating more revenues than the industry average. This amount can be affected by monthly lease of assets rather than purchases and the age of the assets. Older assets have been depreciated over time so the revenues generated today will have a greater return next year for the same revenue dollar. Based upon this comparison and on-site visits to each location, we conclude that Hollywood and Goldie's may have invested in fixed assets more recently than compared to their peers.

Return on assets is calculated by dividing profit (before income taxes) by total assets. Based upon our previous analysis, we concluded that profit (before income and city taxes) divided by net fixed assets plus current assets were a more accurate measure of operations. However, there is no RMA statistic for comparative purposes. The Shoreline average, without the effect of the Hideaway, averaged a 58% return on their investment in current and fixed assets. We included city taxes in the next ratio and noted a significant decrease on the return on net assets for several Casinos. Generally, these Casinos pay more in interest expense to related and unrelated parties for money borrowed to finance their business. Therefore, their return on money invested in fixed assets and current assets ranged from <178%> to <3%> for these Casinos. The Casinos with lower interest expense have returns ranging from 11% to 47%. In other words, half of the Casinos in the City of Shoreline are not generating a positive return on their investment in current and fixed assets.

The significant factors that make three of the Casinos more profitable than the others are: Casinos financed through equity rather than debt, smaller proportional capital investment in fixed assets, and lower general and administrative expenses.

b. Cash Flow Analysis

A cash flow statement consists of three sections: Operating, Investing and Financing activities. Investing activities include lending money and collecting on loans as well as acquiring and selling operating assets. Financing activities include acquiring funds from the owners as an investment or providing an owner with a return on, or of, their investment. Financing also includes borrowing money and repaying amounts borrowed to lenders. Operating activities are defined as all other activities that are not investing or financing activities.

	Goldies	Hollywood	Drift-On-Inn	Parkers	Average Total
NET INCOME (LOSS)	$ (13,906)	$ 214,261	$ 558,725	$ 558,811	$ 329,473
CASH FLOWS FROM OPERATING ACTIVITIES					
Adjustments to reconcile net income(loss) to net cash flows from operating activities					
Depreciation and amortization	289,415	158,948	182,064	78,758	177,296
Changes in operating assets and liabilities					
Accounts receivable	(4,565)	2,722	(6,403)	(6,343)	(3,647)
Accounts receivable related parties	-	4,835	94,564	-	24,850
Inventory	(995)	4,508	(230)	(2,111)	293
Prepaid expenses	(42,327)	8,080	9,575	-	(6,168)
Accounts payable and accrued expenses	38,506	(627,653)	21,013	81,017	(121,779)
Accounts payable related parties	187,736	379,527	102,066	-	167,332
	453,864	145,228	961,374	710,132	567,650
CASH FLOWS FROM INVESTING ACTIVITIES					
Capital expenditures	(3,617)	(91,093)	(111,299)	(47,668)	(63,419)
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from long term debt	-	1,620,000		31,436	412,859
Proceeds from related party debt	8,000	150,000	100,000	-	64,500
Principal payments on debt/capital leases	-	(1,194,700)	(44,147)	(6,594)	(311,360)
Principal payments on related party debt	(10,710)	-	(50,000)	-	(15,178)
Member draws	(330,000)	(432,000)	(733,900)	(395,708)	(472,902)
	(332,710)	143,300	(728,047)	(370,866)	(322,081)
NET CHANGE IN CASH	117,537	197,435	122,028	291,598	182,150
CASH, beginning of year	269,375	350,044	788,237	204,145	402,950
CASH, end of year	$ 386,912	$ 547,479	$ 910,265	$ 495,743	$ 585,100
NONCASH INVESTING ACTIVITIES		$ (123,861)			

i. Operating cash flow

We analyzed the cash flow statements using the indirect method whereby we start with net income (loss) and adjust for all non-cash items, such as depreciation expense. Depreciation expense is a real expense of the Casino, but the cash used to generate the depreciation was spent in prior periods. Therefore, depreciation increases the amount of cash retained by the Casino on an annual basis. Similar methods are used for operating assets and liabilities. Based upon our cash flow analysis, all the Casinos had a positive cash flow from operations which averaged approximately $570,000. However, we did not receive cash flow data for the Golden Nugget or Hideway Casinos. On average, depreciation and increased payables to related parties accounts for most of the positive cash flow from operations. Half of the Casinos have negative cash flow from operations after the effects of related party payables and depreciation are removed. Depreciation represents the loss in value of an asset over time and the asset may need to be replaced or repaired in the future. Ideally, the cash flows from depreciation expense are held within a company for future needs.

We noted that the City of Shoreline received more in tax revenues than the Casinos generated through operations for three out of four Casinos.

ii. Investing cash flow

Operating asset purchases averaged approximately $63,000, with a low of $3,617 and a high of $111,299. Hollywood Casino purchased $123,861 of assets through seller financing.

iii. Financing cash flow

Members or owners of the Casinos had average cash draws of approximately $475,000. The owners use draws to pay federal income tax on net income from the Casinos and draws also represent the owners return on investment or return of investment. We were unable to determine what type of return the owners received because equity is not required to be disclosed separately, which would include contributed capital (cash or assets), retained earnings, or accumulated deficit (losses).

Owners which also work in daily operations may receive compensation in the form of a salary or guaranteed payment. This salary or guaranteed payment is included in expenses rather than a financing activity because the payments represent the value that another employee would have to be paid to perform the same operational duties. We did not receive detailed information to perform an analysis of these expenses.

c. Trend Analysis

We prepared this analysis to analyze the change between years for income and expenses. Therefore, revenues and expenses are each 100% while the components of each are represented as a percentage of total revenues and expenses.

Debbie's Drift-On-Inn

	2004		2003		2002		2001	
REVENUES								
Gaming	$ 6,365,691	61%	$ 6,974,898	65%	$ 6,438,371	62%	$ 7,048,530	61%
Food and beverage	2,589,409	25%	2,732,099	25%	2,843,750	27%	2,785,547	24%
Pull-tabs	1,602,563	15%	1,454,841	13%	1,577,293	15%	1,840,843	16%
Other operating revenue	490,488	5%	345,276	3%	309,479	3%	381,208	3%
Less promotional allowance	(609,310)	-6%	(710,976)	-7%	(776,788)	-7%	(588,114)	-5%
	10,438,841	100%	10,796,138	100%	10,392,105	100%	11,468,014	100%
EXPENSES								
Cost of sales	2,700,856	27%	2,670,844	28%	2,843,898	30%	2,947,740	29%
City taxes	876,508	9%	927,271	10%	881,723	9%	977,831	9%
Operating expenses	3,998,315	40%	3,445,860	36%	3,238,646	34%	3,248,976	32%
General and administrative	2,149,249	22%	2,326,866	24%	2,302,500	24%	2,938,666	29%
Depreciation	182,064	2%	161,021	2%	147,091	2%	191,492	2%
	9,906,992	100%	9,531,862	100%	9,413,858	100%	10,304,705	100%
OTHER INCOME (EXPENSE)								
Interest income	59,988	11%	177,765	13%	190,578	18%	127,849	11%
Interest expense	(33,112)	-6%	(80,583)	-6%	(110,176)	-10%	(126,334)	-11%
	26,876	5%	97,182	7%	80,402	8%	1,515	0%
NET INCOME	558,725	100%	1,361,458	100%	1,058,649	100%	1,164,824	100%
CITY TAXES	876,508		927,271		881,723		977,831	
Taxes as a percentage of net income before taxes	61%		41%		45%		46%	
Taxes as a percentage of net income	157%		68%		83%		84%	

Significant items noted in this trend analysis of Drift-On-Inn include increasing operating expenses as a percentage of total operating expenses from year to year and the change in the percentage of tax ratios from 2003 to 2004. Operating expense increases could be attributable to the increases in the minimum wage or property and medical insurance which have affected many small businesses. However, we were not provided enough detail for operating expenses to form a conclusion. The change in city taxes as a percentage of net income and net income before taxes could have been affected by the opening of Hollywood Casino in 2003. Hollywood Casino is located next door and under common ownership with Drift-On-Inn.

We prepared this analysis to analyze the change between years for income and expenses. Therefore, revenues and expenses are each 100% while the components of each are represented as a percentage of total revenues and expenses.

Goldies Shoreline Casino

	2004		2003		2002		2001	
REVENUES								
Gaming	$ 7,015,394	86%	$ 5,599,015	81%	$ 5,768,931	83%	$ 6,505,671	85%
Food and beverage	1,439,233	18%	1,203,524	17%	1,072,162	15%	1,011,051	13%
Pull-tabs	238,171	3%	249,231	4%	259,673	4%	284,258	4%
Other operating revenue	49,431	1%	112,527	2%	118,946	2%	135,247	2%
Less promotional allowance	(574,360)	-7%	(282,039)	-4%	(263,958)	-4%	(265,486)	-3%
	8,167,869	100%	6,882,258	100%	6,955,754	100%	7,670,741	100%
EXPENSES								
Cost of sales	770,158	10%	662,294	9%	629,336	9%	654,231	9%
City taxes	817,192	10%	669,766	10%	682,691	10%	738,339	10%
Operating expenses	3,952,322	50%	3,519,202	50%	3,986,021	58%	3,595,405	49%
General and administrative	2,062,422	26%	1,790,599	26%	1,174,407	17%	2,024,676	28%
Depreciation	289,415	4%	335,404	5%	343,556	5%	286,818	4%
	7,891,509	100%	6,977,265	100%	6,816,011	100%	7,299,469	100%
OTHER INCOME (EXPENSE)								
Interest income	5	0%	1,807	-1%	3,627	-2%	35,925	-22%
Interest expense	(290,271)	2087%	(313,780)	111%	(298,596)	186%	(280,997)	175%
Other	-		124,211	-44%	(5,700)	4%	(287,031)	178%
	(290,266)	2087%	(187,762)	66%	(300,669)	187%	(532,103)	331%
NET LOSSES	(13,906)	100%	(282,769)	100%	(160,926)	100%	(160,831)	100%
CITY TAXES	817,192		669,766		682,691		738,339	
Taxes as a percentage of net losses before taxes	102%		173%		131%		128%	
Taxes as a mulitple of net losses	58.77		2.37		4.24		4.59	

Due to Goldie's Shoreline Casino's continuing net losses, a percentage analysis with negative numbers is not as useful as the previous trend analysis. However, the positive change between 2003 and 2004 net losses appears to be attributable to increased gaming revenues rather than the effect of changes in expenses.

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	Goldies		Hollywood		Drift-On-Inn		Parkers		Golden Nugget		Hideaway		Average Total		2-10 MM Casinos RMA
CURRENT ASSETS															
Cash and cash equivalents	$ 386,912	20%	$ 547,479	27%	$ 910,265	15%	$ 495,743	42%	$ 236,871	40%	$ 50,932	2%	$ 438,034	19%	21.6%
Accounts receivable	35,478	2%	17,568	1%	35,584	1%	11,422	1%	-	0%	-	0%	16,675	1%	0.7%
Accounts receivable - RP	-	0%	-	0%	211,683	3%		0%		0%	1,156	0%	35,473	2%	0.0%
Inventory	24,128	1%	33,542	2%	39,292	1%	-	0%	8,399	1%	10,561	0%	19,320	1%	1.3%
Prepaid expenses	75,084	4%	45,878	2%	37,479	1%	40,124	3%	7,776	1%	4,790	0%	35,189	2%	8.8%
	521,602	27%	644,467	32%	1,234,303	20%	547,289	46%	253,046	43%	67,439	3%	544,691	23%	32.4%
PROPERTY AND EQUIPMENT															
Building	-														
Leasehold improvements	2,265,476	118%	32,500	2%	702,326	12%	568,862	48%	261,831	44%	27,712	1%	643,118	28%	-
Furniture, fixtures, and equipment	570,234	30%	1,542,737	77%	1,293,699	21%	384,533	32%	259,545	44%	160,949	8%	701,950	30%	-
Accumulated amortization	(1,440,354)	-75%	(207,576)	-10%	(1,078,278)	-18%	(323,872)	-27%	(224,798)	-38%	(86,096)	-4%	(560,162)	-24%	-
	1,395,356	72%	1,367,661	68%	917,747	15%	629,523	53%	296,578	50%	102,565	5%	784,905	34%	60.1%
OTHER ASSETS															
Other assets	10,000	1%	-	0%	2,156	0%	17,395	1%	44,800	8%	1,975,020	92%	341,562	15%	1.8%
Related party note	-	0%	-	0%	3,946,102	65%	-	0%	-	0%	-	0%	657,684	28%	5.7%
	10,000	1%	-	0%	3,948,258	65%	17,395	1%	44,800	8%	1,975,020	92%	999,246	43%	7.5%
TOTAL ASSETS	1,926,958	100%	2,012,128	100%	6,100,308	100%	1,194,207	100%	594,424	100%	2,145,024	100%	2,328,842	100%	100.0%

	Goldies		Hollywood		Drift-On-Inn		Parkers		Golden Nugget		Hideaway		Average Total		2-10 MM Casinos RMA
CURRENT LIABILITIES															
Accounts payable	$ 15,823	1%	$ 92,116	5%	$ 149,723	2%	$ 186,899	16%	$ 76,380	13%	$ (5,685)	0%	$ 85,876	4%	5.2%
Accrued expenses	387,917	20%	327,393	16%	733,347	12%	261,072	22%	297,497	50%	664,759	31%	445,331	19%	
Related party payable	-	0%	157,212	8%	188,231	3%	-	0%	-	0%	-	0%	57,574	2%	8.3%
Related party note/Line of credit	437,478	23%	3,012,174	150%	1,534,081	25%	-	0%	928,437	156%	432,470	20%	1,057,440	45%	0.3%
Current portion of LTD	9,290	0%	1,612,928	80%	59,977	1%	21,117	2%	13,056	2%	-	0%	286,061	12%	7.3%
	850,508	44%	5,201,823	259%	2,665,359	44%	469,088	39%	1,315,370	221%	1,091,544	51%	1,932,282	83%	21.1%
LONG TERM DEBT															
Long term debt	4,812,042	250%	-	0%	-	0%	3,724	0%	3,440	1%	-		803,201	34%	43.2%
Related party note/debt	955,463	50%	-	0%	-	0%	-	0%	300,000	50%	2,040,000	95%	549,244	24%	5.4%
	5,767,505	299%	-	0%	-	0%	3,724	0.3%	303,440	51%	2,040,000	95%	1,352,445	58%	48.6%
EQUITY	(4,691,055)	-243%	(3,189,695)	-159%	3,434,949	56%	721,395	60%	(1,024,386)	-172%	(986,520)	-46%	(955,885)	-41%	30.2%
	(4,691,055)	-243%	(3,189,695)	-159%	3,434,949	56%	721,395	60%	(1,024,386)	-172%	(986,520)	-46%	(955,885)	-41%	30.2%
TOTAL LIABILITIES AND EQUITY	1,926,958	100%	2,012,128	100%	6,100,308	100%	1,194,207	100%	594,424	100%	2,145,024	100%	2,328,842	100%	100%

ATTACHMENT A2

	Goldies		Hollywood		Drift-On-Inn		Parkers		Golden Nugget		Hideaway		Average	
REVENUES														
Gaming	$ 7,015,394	86%	$ 5,753,616	75%	$ 6,365,691	61%	$ 5,455,840	91%	$ 2,476,602	86%	$ 874,213	57%	$ 4,656,893	76%
Food and beverage	1,439,233	18%	2,117,923	27%	2,589,409	25%	525,386	9%	142,369	5%	215,564	14%	1,171,647	19%
Pull-tabs	238,171	3%	-	0%	1,602,563	15%	-	0%	246,814	9%	392,730	26%	413,380	7%
Other operating revenue	49,431	1%	228,910	3%	490,488	5%	43,379	1%	5,150	0%	41,396	3%	143,126	2%
Less promotional allowance	(574,360)	-7%	(380,840)	-5%	(609,310)	-6%	-	0%	-	0%	-	0%	(260,752)	-4%
	8,167,869	100%	7,719,609	100%	10,438,841	100%	6,024,605	100%	2,870,935	100%	1,523,903	100%	6,124,294	100%
EXPENSES														
Cost of sales	770,158	9%	1,083,438	14%	2,700,856	26%	460,542	8%	330,486	12%	450,320	30%	965,967	16%
Building lease	228,380	3%	300,000	4%	311,841	3%	220,856	4%	not available		not available		265,269 **	4%
Gaming/Equipment Leases	118,007	1%	145,228	2%	109,009	1%	31,970	1%	not available		not available		101,054 **	2%
City taxes	817,192	10%	631,796	8%	707,345	7%	607,555	10%	277,374	10%	119,127	8%	460,648	8%
Other operating expenses	3,605,935	44%	3,840,532	50%	3,746,628	36%	3,243,648	54%	938,611	33%	666,048	44%	2,673,567	44%
Advertising	74,888	1%	315,463	4%	323,118	3%	235,090	4%	not available		not available		237,140 **	4%
General and administrative	1,987,534	24%	918,047	12%	1,826,131	17%	580,911	10%	1,110,097	39%	450,056	30%	1,145,463	19%
Depreciation	289,415	4%	158,948	2%	182,064	2%	78,758	1%	87,216	3%	55,211	4%	141,935	2%
	7,891,509	97%	7,393,452	96%	9,906,992	95%	5,459,330	91%	2,743,784	96%	1,740,762	114%	5,855,972	96%
OPERATING INCOME	276,360	3%	326,157	4%	531,849	5%	565,275	9%	127,151	4%	(216,859)	-14%	268,322	4%
OTHER INCOME (EXPENSE)														
Interest income	5	0%	954	0%	59,988	1%	4	0%	-	0%	-	0%	10,159	0%
Interest expense	(290,271)	-4%	(112,850)	-1%	(33,112)	0%	(6,468)	0%	(142,809)	-5%	(206,341)	-14%	(131,975)	-2%
	(290,266)	-4%	(111,896)	-1%	26,876	0%	(6,464)	0%	(142,809)	-5%	(206,341)	-14%	(121,817)	-2%
NET INCOME	(13,906)	0%	214,261	3%	558,725	5%	558,811	9%	(15,658)	-1%	(423,200)	-28%	146,506	2%

Comparison of City Gambling Tax Rates

City	Card Game Tax Rate	Local City B&O Tax Rate	$$ Generated by the City B&O Tax
Auburn	12.00%		
Bellevue	Not Allowed		
Bothell	Not Allowed		
Burien*	11.00%	0.0500%	$2,007
Edmonds	Not Allowed		
Everett*	10.00%	0.1000%	$13,516
Federal Way	20.00%		
Kenmore**	15.00%		
Kent	10.00%		
Kirkland	Not Allowed		
Lakewood	11% to 20%***		
Lake Forest Park	Not Allowed		
Lynnwood	Not Allowed		
Mountlake Terrace	10.00%		
Redmond	12.00%		
Renton	10.00%		
SeaTac	10.00%		
Seattle	Not Allowed		
Spokane	20.00%		
Tacoma*	11.00%	0.4000%	$19,049
Tukwila	10.00%		
King County	11.00%		
Pierce County	10.00%		
Snohomish County	5% first two years and then 10% thereafter		

* Cities that assess a City B&O tax in addition to a gambling tax
**Rate increased on 12/13/2004
*** Rate dependent on total monthly gross revenue