

**XXXXXXXXX MANAGEMENT, LLC**  
**dba XXXXXXXX Hotel Casino and Resort**

**FINANCIAL REPORTING**  
**AND**  
**ACCOUNTING POLICY MANUAL**

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FINANCIAL REPORTING AND  
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## **SECTION 1 - FINANCIAL REPORTING**

### **1.1 Accrual Basis of Accounting**

As required by generally accepted accounting principles (GAAP), XXXXXXXXX Management, LLC (hereinafter referred to as “the Company”) uses the accrual basis for accounting and financial reporting purposes. Under the accrual basis of accounting, revenue is considered realized and is recognized in the accounts when earned, regardless of the timing of collection. Similarly, expenses are recognized and matched with the revenue of the period to which it relates, regardless of when the cash is expended.

### **1.2 Accounting Periods/Calendars**

The Company is on a calendar month close with its year ending on December 31<sup>st</sup>. Month-end closings are generally completed 15 business days subsequent to month end.

The Company operates on a 13 period accounting calendar with January 1 through final close representing Period 1. Likewise, Period 12 is December 1 through final close. Period 13 approximates the one month period subsequent to the December month-end final close when year-end adjustments.

### **1.3 Financial Reporting**

Monthly financial statements are submitted to the Company’s owners for review. In addition, periodic financial statements are submitted to banks as required by the applicable loan documents or bank agreements. Standard Financial Statements (NGC-17) are submitted to the Nevada Gaming Control Board not later than September 15<sup>th</sup> for the prior 12 month period ended June 30. Audited financial statements are submitted to the Nevada Gaming Control Board within 120 days following year end.

### **1.4 Budgeting/Annual Plan**

An annual budget is completed within 30 days following the end of the prior fiscal year. The annual budget consists of a projected accrual basis income statement by month for the upcoming year and a projected year end balance sheet. The annual budget is reviewed and approved by the Controller and General Manager and is then submitted to the Management Committee of the Company for further review and approval.

## **SECTION 2 - CASH AND CASH EQUIVALENTS**

### **2.1 Casino Cage Balance (Cage Accountability)**

Cage accountability is the term used to describe the casino's funds that are carried as inventory on the casino bank count sheets. The total casino cashier balance is comprised of the inventory of currency, coins, checks, gaming chips and tokens in the casino cage, pit area and on the gaming tables; however, only currency and coins are carried on the balance sheet in the Cash and Cash Equivalents section. See Section 9.4 "Gaming Chips and Tokens."

Cage accountability changes as the cage accepts funds from the count room or revenue centers, bank deposits are made, coin or currency is received from the bank, and funds are disbursed. The casino bank count sheets are the source of documents for the daily entries recorded on the cage accountability.

On a daily basis, the balance of cash, chips and cash equivalents is reconciled to the activity recorded on the cage accountability, inclusive of all revenue centers at the property. A journal is recorded at month end to reflect the changes in the cage accountability.

At the end of the month, all casino cage paperwork is reconciled to the general ledger. This is done by adding up the inventory contained in the casino banks on the last day and the last shift of the month and comparing it to the relevant general ledger accounts. Because the Company records revenue through the final day of the calendar month, but the cash and cash equivalents associated with that revenue is not added to the inventory of the casino banks until the first day of the new month, those funds are added and included in the cage accountability totals as well as the general ledger.

### **2.2 Cash in Banks**

Cash in Banks include all balances in bank accounts maintained by the Company including depository accounts and disbursement accounts. Bank overdrafts, if any, are reclassified to accounts payable.

### **2.3 Slot Machine Hoppers**

Ticket-in Ticket-out technology is used Company-wide for all slot machines on property and thus, coin hoppers are not used.

*Also see Appendix II for additional Treasury Management procedures.*

## SECTION 3 – ACCOUNTS RECEIVABLE

### 3.1 Extension of Gaming Credit

#### Markers and Credit Play

At present, the Company **does not** extend gaming credit to casino patrons other than check cashing privileges. Management anticipates that markers and credit play may be extended to casino patrons in the future. In the event that gaming credit is extended to patrons, the Company will implement and adhere to the reporting and procedural policies enumerated in the Nevada Gaming Control Board's Minimum Internal Control Standards as well as any other directives from the Nevada Gaming Commission.

#### Check Cashing

The Company allows patrons to cash personal, payroll, cashier's and traveler's checks denominated in U.S. dollars and drawn on U.S. banks. With exception of traveler's and cashier's checks, the casino cage requires all patrons who desire to cash a check complete a credit application. Casino cage personnel review the application and check the references as well as the bank balance of the patron. The General Manager also reviews the application and determines an aggregate outstanding check limit. The casino patron is then allowed to cash checks at the casino cage up to the aggregate limit established by the General Manager.

For traveler's checks, the cage cashier complies with the documentation and examination procedures enumerated by the issuer of the traveler's checks.

All checks are immediately endorsed by the cage cashier with a custom stamp indicating "For Deposit Only" with the Company's full legal name. The endorsement stamp does not include the Company's account number.

### 3.2 Extension of Non-Gaming Credit

The Company generally does not extend non-gaming credit to patrons. Almost all banquets and group events require an advance partial payment with the remaining balance due upon the day of the event or check-in. There are occasions where the city (e.g., Chamber of Commerce) may have a group event or banquet and it takes 2-3 days after the event to receive the check, however those instances are rare.

### 3.3 Allowance for Doubtful Accounts

To the extent that there are receivables, management reviews outstanding balances to determine collectibility and performs write-downs to net realizable value as warranted.

## **SECTION 4 - INVENTORY**

Inventory consists primarily of merchandise for resale including food, beverage, and gift shop items. Inventories are stated at the lower of cost or market value with cost determined on a First-In First-Out (FIFO) costing method.

On a monthly basis, physical inventories are performed by the Inventory Control Clerk with the assistance of the Company's Chefs and receiving clerks. In addition, this team, along with the line cooks, performs reviews and adjustments for spoilage and waste. The Inventory Control Clerk records all book to physical and spoilage adjustments into Zzzzzz, the Company's food and beverage management software. Inventory adjustments to the general ledger are determined and recorded by the Non-Gaming Accounting Manager.

*Also see Section 8 "Deferred Charges" for the accounting of linen/wardrobe, and china, glassware and silver and Appendix III regarding the "Purchases and Payables Cycle."*

## **SECTION 5 - PREPAYMENTS**

Prepaid expenses primarily consist of gaming license fees and taxes and fees paid under certain contracts and agreements. Gaming taxes include license fees or excise taxes that are primarily based on gross revenues or on the number and type of games in the casino. All gaming and license fees paid in advance are treated as prepaid items and amortized over the period to which the fees relate.

Prepayments for advertising space in newspapers or magazines and radio/television airtime are capitalized and amortized over the period of airing. Prepaid advertising production costs are expensed as incurred or capitalized and expensed upon first airing of the advertisement.

Other prepayments are capitalized to a prepaid asset account and amortized over the life of the related agreement or period of use.

## SECTION 6 – PROPERTY, PLANT AND EQUIPMENT

### 6.1 Expenditure Capitalization

A capital expenditure for the purposes of this policy is defined as an investment in real or personal property which is held for use rather than for sale or conversion into goods or cash and has a useful service life in excess of one year. Non-recurring expenses directly associated with the investment (such as freight, sales tax, labor and installation charges) are included as part of the total expenditure for evaluation purposes.

As a general rule, items costing less than \$1,000 are not considered for capitalization unless they are part of a large purchase of assets of the same type (e.g., purchase of 100 beds at \$300 each). Any items that are not eligible for capitalization are expensed and charged to the appropriate operating expense line item.

The total amount capitalized and included in the depreciable basis of each asset includes the unit cost, freight, sales tax, external labor, wiring, if any, for installation, and any other costs related to the acquisition. The Company also capitalizes any internal labor over \$25,000 that is used as an integral part of the construction or development of a capital asset or capital project. {XXXXX}

Recurring expenditures necessary to maintain a given quantity or quality of services that do not add materially to the use value of the asset or prolong its expected service life appreciably but are necessary to keep the asset in operational condition are expensed as incurred. Also see Section 12 “Expenditure Authority Limits.”

### 6.2 Property, Plant & Equipment Classifications

Property, Plant and Equipment (PP&E) is recorded in a subledger which is reconciled on a monthly basis to the general ledger by the Non-Gaming Accounting Manager. The Company’s PP&E classifications are as follows:

#### Land

Includes real estate that is currently being used in business operations. Land not being used currently in operations and held as a potential building site or for other speculative or investment purposes is not included in the land account. Amounts allocated to the land account consist of the entire cost of placing the land into suitable condition.

#### Land Improvements

Includes land improvements with a definite service life such as curbs, paving, outside lighting, walks, yard planters, car stops, water sprinkler systems, water meters, asphalt on parking area, outside buildings, dog kennels, fences, pool/patio, underground drainage systems, flower beds, shrubbery, gravel, sod and trees.

#### Buildings and Improvements

Includes the cost of investment in buildings (and structural improvements), including the cost of construction labor, materials, and services such as architectural fees. Includes original cost of equipment that services normal heating, plumbing, fire protection, power requirements, and equipment such as elevators and escalators.

Building improvements consist of additions to or renovations of existing structures subsequent to the building being placed in service. Building improvements are an integral part of the building and are of a nature that would be included in the assessed valuation of the real estate for local real property tax purposes.

Capital leases

This account includes the carrying value of qualified real property and all personal property under capital leases. Depreciation on capital lease assets is recorded pursuant to SFAS No. 13.

This account also includes improvements on leased property that revert to the lessor upon termination of the lease, such as the installation of gas and telephone lines, paneling, doors, wall coverings, lighting, wiring, floor covering, ceilings, baseboard heaters, roof drains, dance floors and other types of permanent equipment. Unless specifically exempted in the lease agreement, walks, landscaping, construction of shelves, storage areas, and other renovation/remodeling are considered to be improvements.

This account does not include maintenance and repairs, such as glass replacement and painting, made by the Company. Additions, betterments and replacements less any salvage value that the lessor agrees to pay upon termination of the lease, are amortized over the remaining life of the lease. Also see Section 6.7 "Accounting for Leases."

Leasehold Improvements

Includes the cost of improvements made to leased property other than qualified investments. Depreciation on leasehold improvements is recorded pursuant to SFAS No. 13.

Construction in Progress

Includes the accumulated cost of real property that is under construction and has not been placed in service. Once the property has been completed and placed into service, it is transferred to the appropriate fixed asset account(s) as defined herein. Also refer to Section 6.6, "Capitalization of Interest."

Furniture, Fixtures and Equipment

The accumulated capitalized costs for all furniture, fixtures and equipment owned by the Company include the following.

- Furniture & Fixtures - Hotel
- Furniture & Fixtures – Non-gaming
- Office Equipment
- Furniture & Fixtures - Gaming
- Artwork/Paintings & Antiques
- Restaurant Equipment
- Vinyl Wall Coverings
- Televisions
- Telephone Equipment
- Air Conditioners
- Information Systems
- Slot Machines
- Carpeting
- Autos & Trucks
- Mattresses & Box Springs
- Curtains and Drapes
- Miscellaneous Equipment - Hotel
- Computer Software
- Signage
- Entertainment & Mechanical Equipment

### **6.3 Additions, Betterments and Improvements and Replacements**

An addition is an increase (extension, enlargement or expansion) in an existing fixed asset, not a replacement of a fixed asset. This increase may be represented by separate units, such as chairs and shrubbery or by component parts, such as floor or wall tile where there were not originals. Additions that meet the service life criteria for fixed assets are treated like original expenditures and capitalized except where the cost is less than \$1,000.

Betterments and Improvements include major remodeling of an existing asset or replacement of an existing asset or unit by an improved or superior asset or unit that would extend the life or improve profits during the life of the asset. Major remodeling includes all costs associated with that remodeling even if some of those costs might normally be expensed if they were not part of a major remodeling project.

### **6.4 Slot Machine Conversions and Refurbishments**

A conversion is the process of exchanging a component part of a slot machine (i.e., belly glass, reel strips, circuit boards, programs, etc.) for a similar component. Accounting standards require that the Company either identify the net book value of the replaced part and write that amount off, or expense the costs of the new part. Practically speaking, identifying the cost of the replaced part is not practicable. Thus, our Company policy is to expense conversion costs as incurred.

In the rare circumstance that incremental components are added to the slot machine, the cost of the incremental components are capitalized in accordance with our capitalization policy. For example, if the Company adds a progressive meter or second monitor to a slot machine, the costs of these parts (which are new assets rather than being replacements of existing parts) are capitalized.

### **6.5 Depreciation Expense**

Depreciation is recorded on a straight-line basis in accordance with generally accepted accounting principles.

### **6.6 Capitalization of Interest**

In accordance with SFAS No. 34, No. 42 and No. 58, the Company capitalizes interest costs associated with projects with expected aggregate capital expenditures exceeding \$100,000. Capitalization begins when the following three criteria are present:

- (a) Capital expenditures of \$50,000 have been made or beginning of construction.
- (b) Activities that are necessary to get an asset ready for its intended use are in progress. This includes but is not limited to reconstruction activities and construction.
- (c) Interest costs are being incurred by the Company.

The amount of interest capitalized is the interest costs that could have been avoided if the construction had not taken place. The determination of the interest amount is based on either of the following:

- (a) Application of an interest rate (capitalization rate) to the average amount of accumulated expenditures for the asset during the period. Accumulated expenditures include previously capitalized interest. The capitalization rate used during the period is based on the weighted-average borrowings outstanding during the period.
- (b) If financing plans associate a specific new borrowing with a qualifying asset, the rate on that borrowing is used as the capitalization rate on the accumulated expenditures up to the borrowing level.

The total amount of interest to be capitalized for a period does not exceed the actual interest amounts incurred.

The determination of interest capitalization is made at inception of each project and is not subsequently changed. The capitalization period ends when construction is substantially complete or development activity is suspended for more than a brief period.

Capitalized interest is amortized over the same period over which the related asset is depreciated.

## **6.7 Accounting for Leases**

The main source of promulgated GAAP on accounting for leases is SFAS 13; however, this statement has subsequently been amended on several occasions and numerous interpretations and technical bulletins have been issued. In this respect, a careful and thorough analysis is made of all lease transactions to ensure the proper accounting treatment.

Capital Leases: If, at its inception, a lease meets one or more of the following four criteria, the lease is classified as a capital lease where the acquisition of an asset is recorded along with an associated liability:

- (a) By the end of the lease term, ownership of the leased property is transferred to the lessee
- (b) The lease contains a bargain purchase option
- (c) The lease term is substantially (75% or more) equal to the estimated useful life of the leased property
- (d) At inception of the lease, the present value of the minimum lease payments with certain adjustments is 90% or more of the fair value of the leased property. In determining the present value of the minimum lease payments the Company's incremental borrowing rate is used unless the implicit rate of interest is known and is lower.

The asset recorded under the capital lease methodology is amortized in a manner consistent with the Company's depreciation policies enumerated in Section 6.5 "Depreciation Expense."

Operating Leases: All other leases not meeting one or more of the aforementioned criteria are accounted for as operating leases. Rental expense is amortized over the lease term on a straight-line basis.

## **6.8 Physical Inventories**

Physical inventories of fixed assets are performed annually by Accounting Staff. The results of physical inventories and related adjustments are reviewed and approved by the Controller.

## **6.9 Impairment or Disposal of Long-Lived Assets**

The Company periodically reviews all major long-lived assets to determine whether events have occurred or circumstances exist that indicate a potential impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." For assets to be disposed of, the Company recognizes the asset to be sold at the lower of carrying value or fair market value less costs of disposal. Fair value for assets to be disposed of is generally estimated based on comparable asset sales, solicited offers or a discounted cash flow model.

For assets to be held and used, the Company reviews long-lived assets for impairment whenever indicators of impairment exist. If an indicator of impairment exists, the Company compares the estimated future cash flows of the asset, on an undiscounted basis, to the carrying value of the asset. If the undiscounted cash flows exceed the carrying value, no impairment is indicated. If the undiscounted cash flows do not exceed the carrying value, then an impairment is measured based on fair value compared to carrying value, with fair value typically based on a discounted cash flow model.

All disposals and retirements up to \$25,000 require the approval of the Controller and the General Manager. Any disposal or retirement above \$25,000 requires the approval of the Management Committee.

## **6.10 Software Capitalization**

### Capitalization

At present, the Company has no internally developed software and no plans to internally develop software; however, the Company does purchase "off-the-shelf" software product for internal use and capitalizes the associated costs in accordance with Statement of Position 98-1 (SOP 98-1).

All costs associated with the preliminary project stage as defined in SOP 98-1 are expensed as incurred. Once the Company has decided how the software development work will be conducted and has authorized and committed funding to the project, external

direct costs of materials and services associated with obtaining and installing the software are capitalized. At present, the Company does not incur significant internal labor costs or travel expenses associated with software development and implementation.

Regardless of project stage, the following costs are expensed as incurred:

- Research and development costs
- Pilot project costs
- Training costs
- Maintenance costs
- General and administrative costs, including overhead costs
- Data conversion costs (other than data conversion software)

In the event that multiple elements are bundled with the software purchase (e.g., training, maintenance, data conversion, etc), the Company allocates the costs among all elements in the contract based upon fair value.

#### Impairment

When it is no longer probable that the computer software project will be completed and placed in service, no further costs are capitalized, and impairment is measured and recognized in accordance with the provisions of SFAS No. 144.

#### Amortization

Capitalized software costs are amortized on a straight-line basis over the estimated useful life of the asset (three or five years) commencing when the computer software is ready for its intended use (i.e., when all substantial testing is complete).

## **SECTION 7 – INTANGIBLE ASSETS**

The Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 142, “Goodwill and Other Intangible Assets”, in June 2001 (SFAS No. 142). Goodwill represents the excess of purchase price over fair market value of net assets acquired in business combinations. SFAS No. 142 changed the accounting for goodwill from an amortization method to an impairment-only approach.

The Company may record goodwill as the result of acquiring properties. In the event that goodwill is recorded, the Company will perform tests for impairment of goodwill during the fourth quarter of each fiscal year using the income approach, which focuses on the income-producing capability of the respective property. Additional testing will be performed between the annual tests if an event occurs or circumstances change indicating that goodwill might be impaired.

The underlying premise of the income approach is that the value of an asset can be measured by the present worth of the net economic benefit (cash receipts less cash outlays) to be received over the life of the subject asset. In applying this approach, the Company will estimate the expected cash flows attributable to the respective property and convert these cash flows to present value through discounting. The discounting process will use a rate of return, which accounts for both the time value of money and investment risk factors. The present value of the cash flows will then be totaled to arrive at an indication of the fair value of the goodwill. If the fair value of the goodwill exceeds the carrying value, then impairment will be measured based on the difference between the calculated fair value and the carrying value.

The Company may also acquire finite-lived intangible assets such as customer lists. The Company will record such assets in accordance with Statement of Financial Accounting Standards No. 141, Business Combinations, and amortize such finite-lived assets over their respective remaining useful lives. Impairment testing will be performed in accordance with SFAS 144. See Section 6.9, Impairment or Disposal of Long-Lived Assets.

## **SECTION 8 - DEFERRED CHARGES**

### **8.1 China, Glass and Silverware and Linen/Wardrobe**

The initial complement of china, glass and silverware and Linen/Wardrobe is deferred at full cost including freight and taxes and is amortized to zero over three years. Initial complements consist of items purchased for a start-up operation, a major renovation of an existing facility or a full pattern change.

### **8.2 Finance Charges**

External costs incurred in obtaining long-term financing such as outside attorneys, accounting fees, printing costs as well as the loan discount, if any, are deferred and amortized on a straight-line basis over the life of the loan which approximates the effective interest method.

### **8.3 Gaming Chips and Tokens (Purchase)**

The purchase cost of gaming chips and tokens is recorded as a deferred asset and are fully amortized over a three-year period. See Section 9.4 "Gaming Chips and Tokens."

## **SECTION 9 – ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

*See Appendix III “Purchases and Payables Cycle”*

### **9.1 Paid Time Off (PTO) Accrual**

PTO earned but not yet paid is accrued in a liability account. The liability is reduced as the PTO is taken or as the unused PTO expires. Refer to the Company’s Employee Handbook for the current PTO policy.

### **9.2 Bonus Accruals**

The Company bonus is a conditional payment dependent upon achievement of certain performance objectives agreed upon by senior management and the Management Committee.

Bonus accruals are made each accounting period for a prorated share of the expected annual bonus payment to match the expense with the activity by which the bonus is earned. The amount of the bonus accrual is determined by the Controller.

In the event of a contractual bonus, the bonus accrual is measured and recorded in accordance with the terms enumerated in the applicable employment contract.

During the course of the year, the bonus accrual may be adjusted as necessary to reflect the estimated bonus payout. If achievement of the financial objectives is no longer considered probable by the senior management or the Management Committee and the fact established that no bonus will be paid, then the accrual is stopped and prior accruals reversed.

### **9.3 Progressive Jackpot Accruals**

In-house progressives are those progressives that are funded by the Company, as opposed to multi-casino progressives which are funded by a trust or a third party gaming company. The initial base jackpot of an in-house progressive, sometimes referred to as the "reset amount", is the amount at which a progressive jackpot is first offered, before any progression has occurred. The initial base amount is charged to revenue, and a corresponding liability recognized, when the initial base jackpot is established.

The progressive liability is increased and a corresponding reduction in revenue is recognized based on the amount of money played during the accounting period. The liability represents the total amount of all unpaid in-house progressive jackpots and is agreed to the amounts posted on the related progressive jackpot signage or display. The progressive liability is monitored daily and meter readings are performed on the linked machines to ensure that the jackpots are incremented at the correct rate of progression.

Revenue is decreased as the progressive jackpot increases, thus the offset to the liability

is recorded to the applicable contra-revenue account.

#### **9.4 Gaming Chips and Tokens**

Gaming chips are accounted for from the time the casino receives them even though the casino may not issue them immediately, but, instead, hold them in reserve. When a patron exchanges cash for gaming chips, the casino has a liability as long as those chips are not redeemed or won by the house. That liability is established by determining the difference between the total chips placed in service and the actual inventory of chips in custody or under the control of the casino.

The Casino Chips/Cashiers Custody account is looked upon as an inventory type account. The balance will fluctuate as chips are sent out to the gaming tables and received through the cashier's cage as they are redeemed for cash. The inventory accounts, which represent actual physical counts, maintain debit balances and are offset by the applicable contra accounts that maintain credit balances.

The contra account's balance represents the total face value of chips/tokens purchased for use in the casino, including any reserve supply. This balance will not change until chips are removed from service or additional chips are placed in service.

The difference between the contra-account and the corresponding inventory accounts represents chips/tokens that are in the possession of our customers or other casinos. This outstanding chip and token liability amount is further adjusted to account for the percentage of chips and tokens not expected to ever be redeemed.

## **SECTION 10 - COMMITMENTS AND CONTINGENCIES**

A commitment is an agreement by the Company to perform (i.e., pay an agreed upon amount) should a certain event occur, or fail to occur, in the future. Commitments of future performance are tracked by the Company's legal counsel and are disclosed in the footnotes to the financial statements as necessary.

A contingency is an existing condition, situation, or set of circumstances involving varying degrees of uncertainty that may, through one or more related future events, result in the acquisition or loss of an asset or the incurrence or avoidance of a liability.

In the case of a loss contingency, the Company evaluates the following conditions to determine whether an amount needs to be accrued as a charge to income as of the financial statement date:

- (a) Whether it is probable (likely to occur) that an asset has been impaired or a liability incurred, based on information available before the issue date of the financial statements, and
- (b) The amount of the loss can be reasonably estimated. (A range of amounts may be utilized for estimating purposes).

In the event that both conditions are not met, the Company determines whether disclosure in the footnotes to the financial statements is necessary.

Gain contingencies are never recorded on the books until they are actually realized, although the Company does determine whether footnote disclosure is required.

## **SECTION 11 - MEMBERS' EQUITY**

In accordance with the terms outlined in the Company's operating agreement, profits and losses are allocated 60% to XXXXXXXXX Investors, LLC and 40% to Sher Gaming, LLC.

## SECTION 12 - EXPENDITURE AUTHORITY LIMITS

The Company employs the following monetary limits of authority:

### ***Non Food and Beverage purchases:***

Maximum Amount per Transaction	Approval Required
\$500	Manager approval
\$1,000	Purchase order signed by Director of Operations
\$2,500	Purchase order signed by Controller
\$25,000	Purchase order signed by General Manager

### ***Food and Beverage purchases:***

Maximum Amount per Transaction	Approval Required
\$500	Purchase order prepared by Inventory Control Clerk
\$2,500	Purchase order signed by Food & Beverage Director
\$10,000	Purchase order signed by General Manager

### ***Capital Expenditures***

Capital expenditure monetary limits are as indicated above. Capital projects and spending exceeding \$25,000 must be approved and in accordance with the annual capital projects plan prepared by the Management Committee.

## SECTION 13 - REVENUES

### 13.1 Gaming

The win of gaming activities is the difference between gaming wins and losses for slot machines, table games, keno, sportsbook, racebook, poker, bingo, and other games adjusted for the change in the progressive jackpot liability for slot machines and certain table games, (e.g., Caribbean Stud and Progressive Twenty-One). The adjustment in the progressive jackpot liability causes gaming revenue to be reported on the "accrual basis" rather than the "cash basis".

### 13.2 Food

Revenues derived from the sales of prepared food items and ancillary revenues from banquet rentals and audio-visual equipment. This definition includes restaurant, snack bars, banquets, and room service food sales and does not include revenue for the sale of packaged food in the Company's gift shop. Complimentary revenues and coupons are recorded at menu prices. Cash discounts are recorded as allowances to the appropriate revenue account.

### 13.3 Beverage

Revenues derived from the sales of alcoholic beverages and other beverages sold by the Company's service bar(s). This definition includes the sale of alcoholic beverage sales in the restaurants, banquets and room service and the ancillary revenues from banquet corkage and bartender fees. Complimentary beverages are recorded at menu prices (retail).

### 13.4 Lodging

Revenues derived from the rental of sleeping rooms, net of allowances for disputes and no-show rooms. Revenues include amounts recognized for complimentary rooms at retail value. Retail value is not necessarily rack rate. Retail may be a rate that an unaffiliated party could have been expected to pay in a similar circumstance (for example, a travel agent booking a block of rooms). This category does not include revenue from pay-per-view television or telephone revenues. Cash discounts are recorded as allowances to the appropriate revenue account.

### 13.5 Other Revenue

Other revenue generally includes other income not related to a specific operating department. Examples include gift shop merchandise sales, entertainment sales, ATM commissions, arcade revenues, PBX, telephone, pay television, and vending revenues. Cash discounts are recorded as allowances to the appropriate revenue account. Complimentary revenues are recorded at retail prices.

## SECTION 14 - PROMOTIONAL ALLOWANCES

Promotional allowances are provided to patrons based upon player tracking and player ratings with the exception of administrative complimentarys. The promotional allowance (complimentarys or comps) is the total amount of revenue recognized as part of gross revenues for items given to customers at no charge.

Gross revenues include complimentary revenues recognized for food, beverage, lodging and other. Net revenues are the gross revenues minus promotional allowances. Cash discounts are recorded as allowances directly to the appropriate revenue account and therefore reduce gross revenues of the appropriate profit center.

All complimentarys are recorded to revenue and expense at market value prices similar to those available to paying guests and patrons. Retail value could be a negotiated price less than published prices if those same prices were available to nonaffiliated customers in similar circumstances. For example, a travel agent negotiating for an annual block of rooms would likely get a price that is less than rack rate. Therefore, it would be reasonable for the Company to do likewise.

Additionally, promotional allowances include the amounts that represent the cost of cash and other products and services rewarded based on "points" earned under the Company's loyalty promotional program. Inclusion of the costs of such rewards in promotional allowances result in a reduction of revenue in accordance with Emerging Issues Task Force 00-22, "Accounting for Free Products to be Delivered in the Future." The Company records a liability for the estimated cost of rewards earned by customers.

## **SECTION 15 - PROFIT CENTER EXPENSES**

All operating expenses directly associated with a department are charged to the appropriate profit center. These expenses include but are not limited to department personnel salaries, wages, and benefits, taxes and licenses, equipment rental expenses, repair and maintenance costs, travel and entertainment expenses, and supplies and services. Expenses that are not allocated to profit centers include but are not limited to depreciation and amortization, property rents, property taxes, income taxes, utilities and insurance.

## **SECTION 16 - FIXED EXPENSES**

Fixed expenses include depreciation and amortization, property rents for the lease of real property, property taxes and business insurance.

## **SECTION 17 - GENERAL AND ADMINISTRATIVE EXPENSES**

General and Administrative Expenses include direct expenses incurred by the following departments:

- Accounting, Audit and Finance
- Advertising
- Executive
- Facilities
- Human Resources
- Legal
- Maintenance
- Marketing
- MIS
- Payroll
- Purchasing/Receiving/Inventory Control
- Wardrobe

Additionally, the Company is allocated its proportionate share of corporate expenses as deemed appropriate.

## **SECTION 18 – OTHER AREAS**

### **18.1 Related Party Transactions**

Related party transactions are accounted for as if the parties were not related unless the substance of the transaction is not arm's length. The Company discloses related party transactions in accordance with SFAS No. 57.

### **18.2 Unclaimed Property**

In the event that there is unclaimed property, the Controller ensures timely compliance and filing with the Nevada State Treasurer's Unclaimed Property Division.

### **18.3 Records, Retention, Storage and Disposal**

The Company maintains and stores all relevant documents and materials as required by the Internal Revenue Service, Nevada Gaming Control Board, Nevada Gaming Commission, banks, and other regulatory authorities.

### **18.4 Income Taxes**

The Company is a limited liability company that has elected to be treated as a partnership and is not subject to federal or state income taxes. Income or loss is included on the tax returns of the Company's members.

## **APPENDIX I – GAMING INTERNAL CONTROLS**

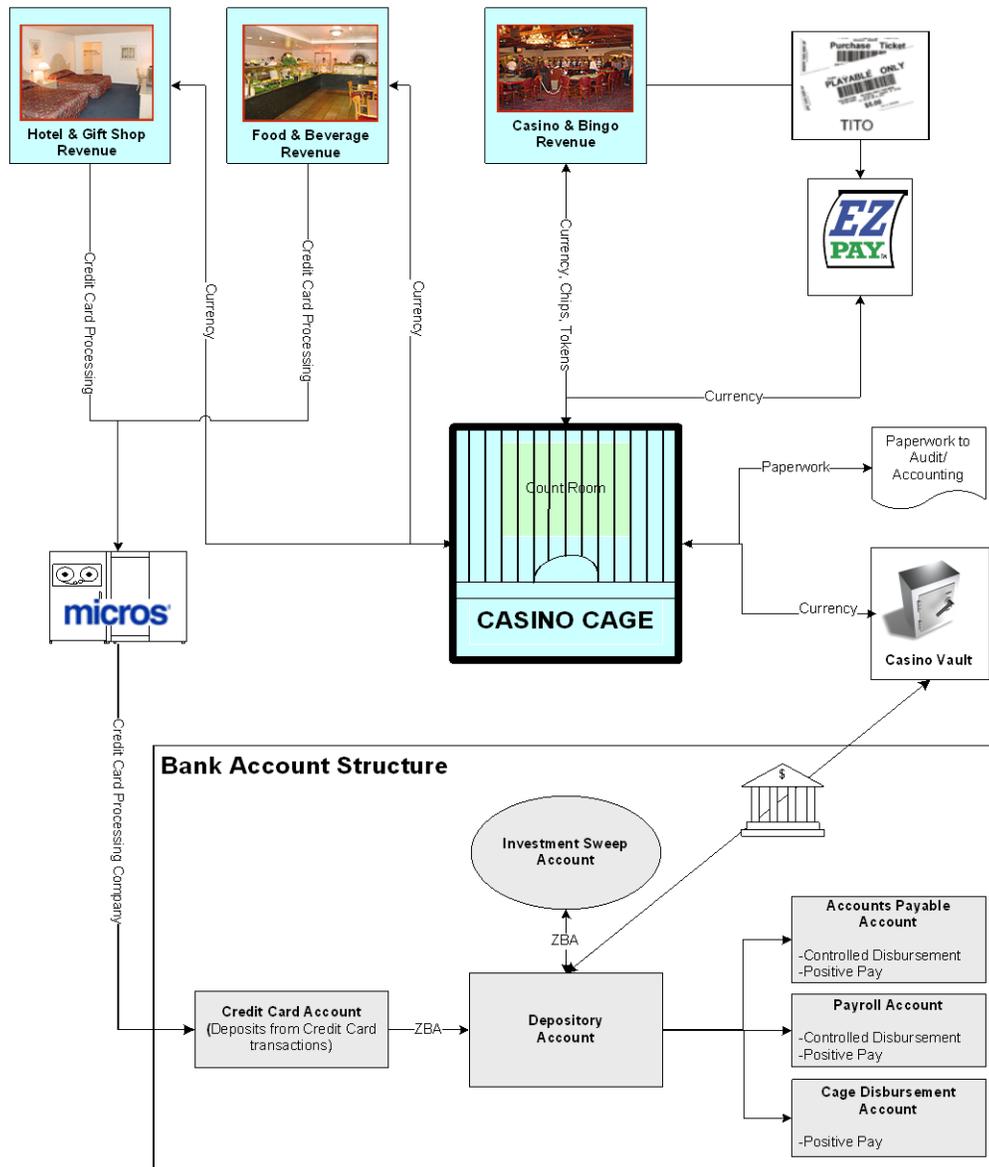
The Company's accounting and administrative procedures surrounding its gaming operations are included in a separate internal control document written in accordance with the Nevada Gaming Control Board and Gaming Commission requirements. This internal control document is incorporated herein by reference.

## APPENDIX II – TREASURY MANAGEMENT CYCLE

The Company’s casino cage policies and procedures are outlined in the Company’s internal control document surrounding gaming operations which is incorporated herein by reference.

### II.1 Flow of Funds and Bank Account Structure

The following diagram illustrates the general flow of funds from the Company’s main revenue sources into the Company’s bank accounts:



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All of the Company's bank accounts are maintained at one bank. The Company's bank accounts include the following:

- *Investment Sweep Account:* This account automatically sweeps excess balances from the depository account to maximize investment returns. The Company's Chief Financial Officer and the President of Austi, LLC meet with bank officials regularly to assess the Company's risk and return portfolio and cash management strategy in order to optimize investment income.
- *Depository Account:* With the exception of credit card deposits, all of the Company's funds are deposited to this account. The Company occasionally writes checks from this account as well. This is a zero balance account that is set up to automatically fund the Accounts Payable, Payroll and Cage Disbursement Account.
- *Credit Card Account:* This account is set up for deposit of credit card transaction monies from the Company's credit card processor. This is a zero balance account and money is automatically swept from this account into the depository account.
- *Accounts Payable Account:* this account is set up for funding of Accounts Payable Checks.
- *Payroll Account:* this account is set up for funding of Payroll Checks and direct deposit.
- *Cage Disbursement Account:* This account is set up in the event that an on-demand check needs to be cut from the cage for a jackpot. While the Company has not used this account or cut checks from the cage, the account has been set up in anticipation of such events in the future.

The Accounts Payable, Payroll and Cage Disbursement Accounts are controlled disbursement accounts whereby the Treasury Accountant receives daily notification of all checks presented for payment the previous day. The accounts are also zero balance accounts where monies are automatically swept from the depository account to cover checks that have been paid.

Effective January 1, 2007, the Company will convert from the current payroll and accounts payable systems to Infinium. Subsequent to and in conjunction with the conversion to Infinium, the Company will utilize the Positive Pay service offered by its bank. Positive Pay helps to eliminate check fraud and counterfeit checks.

## ***II.2 Account Signatories and Account Access***

All checks cut on all accounts require dual signature from the following authorized signers:

XXXXXXXXX	Member, Manager, Chairman
XXXXXXXXX	Member, General Manager, President
XXXXXXXXX	Member, Vice President
XXXXXXXXX	Member, Manager, Secretary, Chief Financial Officer

The aforementioned signatories may also act as wire agents however all wire transfers must be reviewed and approved by the Company's Chief Financial Officer.

The authorized signatories may also access account information online, via telephone and in person. The Director of Finance of XXXXXXXX and the VP of Finance and Treasury of XXXXXXXXXXXX have access to the accounts but cannot perform any transactions, other than stop payments, without authorizations from the aforementioned signatories.

## ***II.3 Bank Statements and Reconciliations***

Bank statements are received monthly by the Director of Finance of XXXXXXXX who immediately reviews the statements for any unusual activity. The Director of Finance performs periodic reviews of bank statements and check images online.

The monthly bank statements are given to the Non-Gaming Accounting Manager for reconciliation. Bank reconciliations are completed by the Non-Gaming Audit Manager not later than 15 days following month end for all bank accounts. This reconciliation also includes a 3-way reconciliation of the credit card transactions and payments between the hotel and food and beverage systems, the credit card processing company and the bank statement.

All material discrepancies are researched and corrective action is taken prior to finalization and the Director of Finance of XXXXXXXX reviews and approves all bank reconciliations. Bank statements, reconciliations, journal entry backup, transaction support and any other relevant documentation are maintained in the accounting file system.

## ***II.4 Check Cancellations and Stop Payments***

Refer to Appendix III section III.14 for information regarding check cancellations and stop payments.

## ***II.5 Check Stock***

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All check stock is pre-printed with the Company's name, address and account number. Check stock is kept in a locked cabinet in the General Manager/Controller's office (note they are currently sharing office space). The office is kept locked and the General Manager and the Controller have a key to the office. The Controller has a key to the locked cabinet and another controlled key is kept locked in the cage. The controlled key can only be checked out at the cage by the General Manager.

The Accounts Payable Clerk, the Payroll Clerk and the Casino Accounting Manager (in the case of an emergency) are the only personnel who can obtain check stock from the Controller. The Clerks must sign a log sheet and present supporting documentation to the Controller prior to signing out any check stock. Refer to Accounts Payable Appendix III and Payroll Appendix IV for additional information.

In the event that the Cage Disbursement Account is utilized in the future, the Company will ensure that check stock is secured and controlled through its cage and accounting operations.

Once the current pre-printed check stock is depleted, the Company plans to utilize uniquely designed blank check stock. As check fraud continues to grow and become more complex, the Company will work with its bank officials to ensure proper high-security features are incorporated into the check stock purchased.

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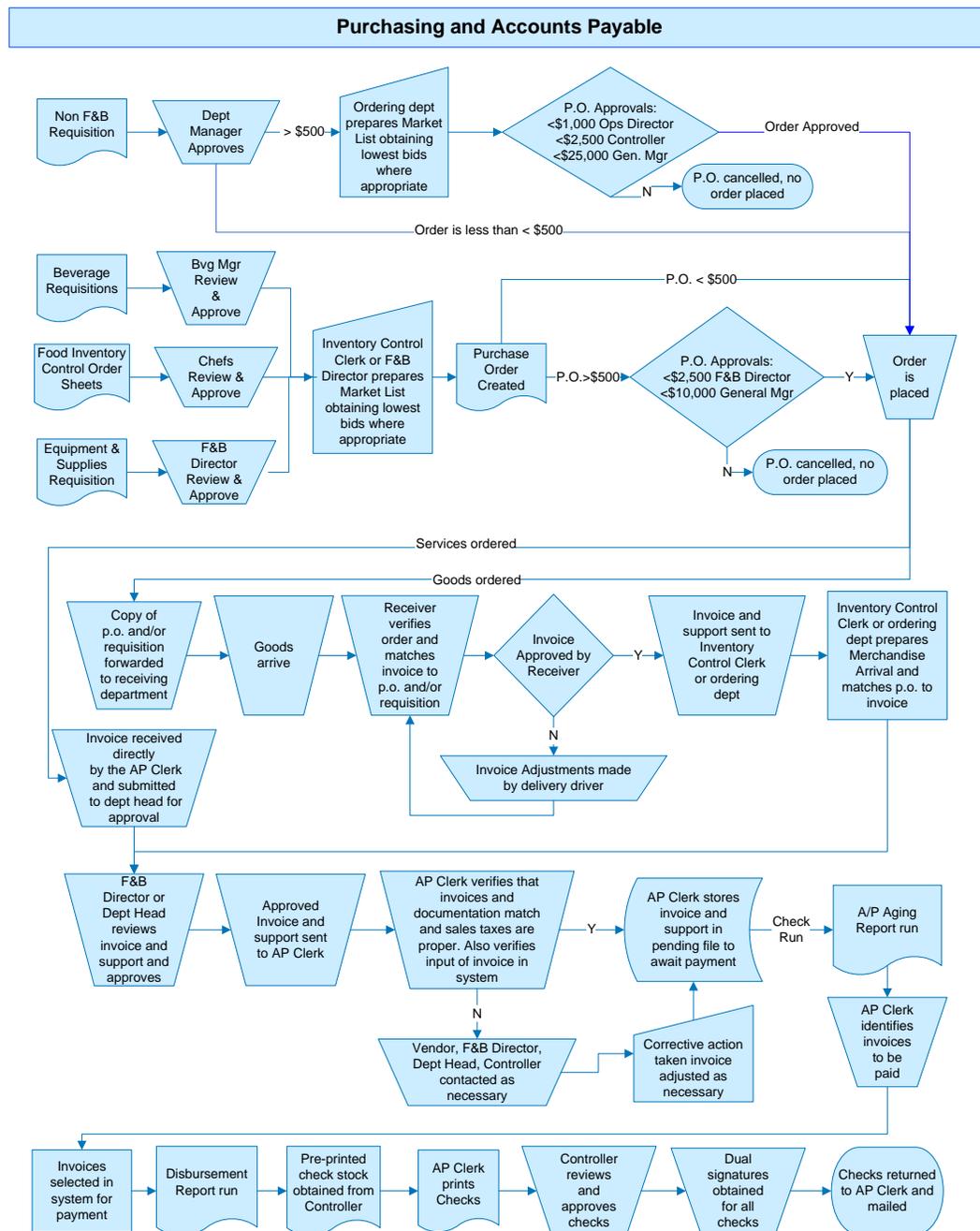
**PURCHASES AND PAYABLES CYCLE**

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**APPENDIX III – PURCHASES AND PAYABLES CYCLE**

Refer to Section 12 “Expenditure Authority Limits” for the Company’s policy regarding monetary limits of authority.

**III.1 Purchases and Payables Cycle Flowchart Overview**



### **III.2 Purchasing and Accounts Payable System**

The Company uses the Zzzzzz system for Windows as its food and beverage management tool. Zzzzzz is designed for food service and hospitality industry professionals in the areas of inventory management, requisitions, purchasing, forecasting, analysis and accounting. Zzzzzz has a fully integrated accounts payable module and interfaces with the Company's point-of-sale system, Micros. The Company is in progress of converting its accounts payable and accounting systems to Infinium which will automatically interface with Zzzzzz. The Company is also in progress of upgrading the Zzzzzz system to the latest available version.

Refer to the Company's IT Manual for discussion of policies, procedures and controls surrounding information security, systems management, planning and monitoring, computer and application controls, backup and recovery, software licensing, etc.

### **III.3 Food & Beverage (F&B) Department Requisitions**

#### **Food**

Food merchandise is generally ordered on Tuesdays, Thursdays and Saturdays from a standard list of vendors (see vendor discussion in the Accounts Payable section). The F&B department generally performs the following procedures for food requisitions:

- On Tuesdays, Thursdays and Saturdays, a physical inventory sheet is printed by the Inventory Control Clerk listing item numbers and product descriptions for all products in the Zzzzzz system.
- The Company's two receiving clerks perform a physical inventory count of all merchandise on property and record this information on the physical inventory sheets.
- The receivers also record an estimated order quantity on the sheet. This estimate is based on the Company's "par-levels" or estimated inventory quantities the Company feels it needs to have on hand at any given time to anticipate the demands of the business.
- The physical inventory count sheets are then provided to one of the head chefs (XXXXXXXXXXXX). The chef(s) review the inventory sheets to determine that the order quantities are reasonable. The chef(s) make any necessary adjustments to the order quantities listed by the receiving clerks taking into consideration current menu options, quantities on hand, and upcoming events or banquets.

Note: The F&B Director prepares and maintains a calendar which includes all upcoming banquets and events. At the beginning of each month, the F&B Director prepares banquet and convention prospectuses for each individual upcoming event. The prospectuses outline menu, guaranteed number of guests expected,

and the charge per person. The F&B Director goes over these prospectuses with the chefs to ensure they are aware of all upcoming events and can ascertain all quantities that need to be ordered on any given day. The event sponsors are required to call 3 days in advance if there are any changes in the guaranteed number of guests or if there is a cancellation.

- After the chef(s)' review processes are completed, the inventory sheets are given to the Inventory Control Clerk in charge of purchasing.

### ***Beverage***

The Beverage Manager has periodic meetings with the Sales Department and the main bar completes a stock requisition sheet on a daily basis using the bar's par-levels. Vendors periodically come on property to meet with the Beverage Manager to discuss inventory quantity and mix. The Beverage Manager prepares a requisition form while considering the aforementioned as well as any upcoming special events or banquets.

## **III.4 Food & Beverage (F&B) Department General Purchasing**

Using the inventory sheets from the chef(s) or requisition form from the Beverage Manager, the Inventory Control Clerk begins the purchasing process by going into the purchase order module of Zzzzzz and creating a "Market List" of all items to be ordered. While in this module, the Inventory Control Clerk inputs the anticipated date that the merchandise will arrive (i.e., generally the next day or two). Note that the Company's main F&B vendors deliver on pre-set delivery days

The Inventory Control Clerk inputs the item number from the physical inventory sheet and the product description comes up on the Market List screen. After verifying that this is the proper product, the Inventory Control Clerk inputs the order quantity approved by the chef(s) or Beverage Manager as indicated on the physical inventory sheet or requisition. While creating the Market List, the Inventory Control Clerk ensures that the pack size and unit of measure are accurate.

As the Inventory Control Clerk enters the quantities into the Market List, he also gives consideration to the Company's par levels and will inquire with the chef(s), the Beverage Manager, and Group Sales as necessary for any quantities that may appear unusual.

The Inventory Control Clerk then selects the "Assign Lowest Bid" function which will identify the vendor with the best bid according to a pre-established set of criteria (see "Vendor Bids" discussion below). The Inventory Control Clerk will review the pricing for each item on the Market List for propriety.

Once all of the product to be ordered is entered into the Market List, the Inventory Control Clerk selects "P.O. List" and Zzzzzz automatically separates the Market List into separate purchase orders for each vendor. The supplier's item numbers will appear on the purchase order to ensure the correct item is shipped. The date of each purchase order is

the date of the anticipated arrival of the merchandise. The system assigns a unique p.o. number to each purchase order for each vendor. The Inventory Control Clerk then prints the purchase orders, obtains approvals as indicated in Section 12, "Expenditure Authority Limits," and faxes the purchase orders directly to the vendors. As mentioned in Section III.2, the Company is in progress of upgrading Zzzzzz. In conjunction with this upgrade, the Company will implement Zzzzzz's approval functionality such that purchase order authorizations and monetary limitations will be programmed within the system.

There are some vendors who will call the F&B Director if they notice any unusual quantities or if there are any discrepancies on the purchase order such as inaccurate pricing. If a revision is made to a purchase order, the system assigns the purchase order a revision number. When anyone goes back into the system to look up the purchase order, the revised version is the p.o. that the system pulls. In addition, the revision number is listed on the top right hand corner of the purchase order next to the purchase order number.

Once the Inventory Control Clerk receives confirmation that the fax has been received by the vendor, a copy of the purchase order is sent to the receiving department and a copy of the p.o. is retained by the Inventory Control Clerk for reconciliation to the merchandise arrival and invoice. See invoice approval process in Accounts Payable section for review procedures performed by the F&B Director, Accounts Payable Clerk, Controller and General Manager, as appropriate.

### ***III.5 Food and Beverage Department Special Supplies and Equipment***

If other F&B supplies or equipment needs to be ordered, the F&B Director obtains bids from suppliers and determines the best vendor based on these bids and the quality of product desired. The F&B Director generates a purchase order and submits the p.o. along with the bids to the General Manager for approval as necessary and in accordance with the monetary limits outlined in Section 12, "Expenditure Authority Limits."

Once appropriate approvals are obtained, the F&B Director places the order with the vendor by faxing the purchase order. A copy of the purchase order is given to the receiving department and the original purchase order is given to the Inventory Control Clerk for reconciliation to the merchandise arrival, packing slip and invoice. See invoice approval process in Accounts Payable section for review procedures performed by the F&B Director, Accounts Payable Clerk, Controller and General Manager, as appropriate.

### ***III.6 Non-Food and Beverage Department Purchasing***

All non-F&B purchasing is made in accordance with the Expenditure Authority Limits set forth in Section 12. Each department has access to the Zzzzzz system in order to input purchase orders into the system for individual expenditures exceeding \$500. Where

appropriate, Zzzzzz's supplier bid function is also utilized (see "Vendor Bids" discussion below).

Once the order is approved and placed with the vendor, a copy of the purchase order is given to the receiving department and a copy is maintained by the department ordering the goods for reconciliation to the merchandise arrival, packing slip and invoice where appropriate. See invoice approval process in Accounts Payable section for review procedures performed by the F&B Director, Accounts Payable Clerk, Controller and General Manager, as appropriate.

### **III.7 Vendor Bids**

Zzzzzz has a "Supplier Bids" feature that provides the option of selecting suppliers for certain ingredients based on bid criteria filters. The Company uses this feature to store merchandise pricing information as well as preferred vendors for selected products.

Every Friday, the Inventory Control Clerk receives faxed bids from the Company's F&B vendors. These faxed reports generally list items the vendor carries, the item number, the pack size, item description and the unit price. Some of the vendors' bid sheets also have an indicator by each item showing whether the price varied from the previous week.

When the bid sheets come in on Friday, the Inventory Control Clerk inputs all the bids into the Supplier Bid portion of Zzzzzz. In addition, if the chef(s) or Management determines that there is specific supplier they want to use for a specific product or item, the vendor is selected as "priority" for all of that product. For instance if there is a certain type of steak (i.e., choice or select) that the Company wants to purchase, they may assign all steak purchases to a priority vendor. During the "Assign Lowest Bid" process, the priority vendor will be chosen for that steak rather than the most cost-effective. Zzzzzz is also set up to automatically evaluate varying pack sizes across vendors and determine the best pricing using the lowest common denominator.

In conjunction with the planned upgrade of Zzzzzz, the Company will implement automated uploading of vendor bids to the extent practical.

### **III.8 Receiving/Merchandise Arrivals**

The Receiving Clerk(s) maintain a pending file of all expected arrivals which will include purchase orders, pending requisitions, and any special notifications from the F&B Director, Hotel Front Desk, etc.

As product comes into the receiving dock, the Receiving Clerk performs an inspection to ensure the product is not damaged, counts the product and weighs the product as appropriate. The Receiving Clerk goes over the invoice and matches it with the purchase order. The delivery person is required to make any adjustments to the invoice for

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shortages, wrong product, quality in the case of produce or other perishables, damage, etc.

Some delivery persons will make the adjustments directly on the invoice while others will issue a "credit memo" form that the Company can use. Some delivery persons will ask that the sales department of their company be called for a pick-up order. Either way, the Receiving Clerk is required to obtain some form of documentation from the delivery person indicating any corrections that need to be made to the invoice. The Receiving Clerk will also speak with the chef(s), the F&B Director, the Inventory Control Clerk, the Beverage Manager or the ordering department as appropriate. After all corrections are made and the Receiving Clerk and delivery person come to an agreement, the delivery person and Receiving Clerk sign off on the invoice, credit slip, pick-up slip, etc.

The Receiving Clerk keeps a log of all deliveries that were received during the day. All goods are immediately stored or delivered to the ordering departments. Storage primarily consists of dry storage, two walk-ins, one freezer, and a beer cooler all of which are kept locked after 4PM. The Executive Chef and the F&B Director have a key to these storage areas. An additional "controlled key" is kept in the cage and must be signed out by certain personnel authorized to use the key.

The Inventory Control Clerk picks up the paperwork for all F&B-related purchases at the end of the day. All other paperwork is delivered to the ordering department when the goods are delivered. The Inventory Control Clerk or ordering department processes the goods received in the "Merchandise Arrival" portion of Zzzzzz.

The person processing the merchandise arrival pulls up the purchase order in Zzzzzz and inputs the delivery date and the amount of the invoice which must match the purchase order. If the invoice total matches the purchase order without exception, merchandise is received in the system directly against the purchase order and inventory is updated as appropriate. Data entry is done by exception. If the invoice and purchase order do not match, the person processing the merchandise arrival must go through the purchase order and the invoice in detail to find out why the invoice and the purchase order do not match and reconcile the two. A merchandise arrival cannot be completed in the system until the purchase order and invoice total match.

To the extent that a non-F&B order less than \$500 is received at the dock and requires delivery to another department, the Receiving Clerk ensures that the invoice or packing slip has the name of Company personnel authorized to make purchases. The Receiving Clerk delivers the product to that department and has the authorized employee sign the "Departmental Delivery Log" indicating receipt of the goods.

**III.9 Vegas Runs**

The Company's receivers do "Vegas Runs" on Fridays. Departments prepare a requisition form or purchase order, as appropriate, which is given to the F&B Director after the

appropriate approvals have been obtained in accordance with the monetary limits outlined in Section 12, "Expenditure Authority Limits."

The F&B Director keeps a copy of the paperwork and gives the originals to the Receiving Clerk who drives into Las Vegas on Fridays to order and pick-up the products. The paperwork and packing slips are returned to the F&B Director and the product is delivered by the Receiving Clerk to the ordering department as necessary.

### ***III.10 Master Vendor File***

While the Accounts Payable Clerk, the Controller and the Non-Gaming Accounting Manager have access to the vendor set up function in Zzzzzz, the Accounts Payable Clerk (AP Clerk) is responsible for adding and modifying vendors in the system. If a vendor needs to be added to the system, the department manager completes a Vendor Request Form. The department head is also required to obtain a completed W-9 form from the vendor. Once the forms are completed they are submitted to the AP Clerk for input into Zzzzzz.

The Accounts Payable Clerk will input the vendor's information into Zzzzzz including the Company's standard payment terms which is Net 30. The AP Clerk will also make a determination as to whether a vendor should be paid earlier than Net 30; these "COD" terms are generally given to local vendors, employees for expense report reimbursements, and utilities. If any other special billing or payment terms have been arranged with the vendor, the AP Clerk will include this in the vendor set up in Zzzzzz. Once a vendor is input, the system supplies a unique vendor number. The vendor can also be looked up by the first few letters of the vendor name after the vendor is set up in the system.

If a vendor is no longer being utilized, the AP Clerk keeps the vendor in the system but gives them an "inactive" designation and puts a "zz" indicator in front of the vendor name such that all inactive vendors print at the bottom of the alphabetical supplier listing and can be easily identified.

### ***III.11 Invoice Handling***

The Accounts Payable Clerk is responsible for handling all incoming mail. When the mail arrives, the AP Clerk reviews each envelope and retrieves any mail that appears to contain invoices. The AP Clerk distributes these invoices to the applicable department manager or supervisor for review and approval. Approved invoices are generally returned to the Accounts Payable Clerk within 24 to 48 hours.

The AP Clerk also receives invoices from the Food and Beverage department for merchandise delivered through the receiving dock. These invoices are matched by the Inventory Control Clerk with the purchase order and the merchandise arrival form as

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discussed in Section III.8, "Receiving/Merchandise Arrivals." The F&B Director reviews and approves all of these voucher packages prior to submission to the AP Clerk.

Other invoices may be submitted to the AP Clerk from various department managers for miscellaneous purchases or services rendered. These invoices must be reviewed and approved by the appropriate authority as enumerated in Section 12, Expenditure Authority Limits.

After receipt of the approved invoices, the AP Clerk reviews the invoice or voucher package as appropriate and matches or vouches the invoice to supporting documentation (e.g., purchase order, merchandise arrival, etc). The AP Clerk also ensures that the invoice and/or purchase order has been signed by the appropriate authority in accordance with the Company's expenditure authority limits. If the AP Clerk identifies any discrepancies in this review and matching process, the department head is contacted and corrective action is taken as necessary.

If the invoice is manually generated, the AP Clerk will perform mathematical accuracy testing. The AP Clerk will review the invoices to ensure the accuracy of sales taxes. (Note that the sales tax rate for XXXXXXXXXX is lower than the sales tax rate for Las Vegas and therefore the AP Clerk ensures that the proper rate is being charged depending on where the good were picked up or delivered). The AP Clerk will also determine the general ledger coding using a listing of "Most Used Vendor GL Account Numbers" or the chart of accounts as appropriate. This coding is written on the invoice. If there are any expenditures that appear unusual or if there are any questions on where the invoice should be coded, the AP Clerk will consult with the department manager or the Controller as needed. In addition, the AP Clerk will also follow up directly with the vendor as necessary.

After the AP Clerk has satisfactorily reviewed the invoice, the AP Clerk is ready to input the invoice into the system. Note that the Food and Beverage invoices that are pre-matched by the Inventory Control Clerk are already input into the system (see purchasing section III.8, "Receiving/Merchandise Arrivals").

In order to input invoices into Zzzzzz, the AP Clerk goes into the Accounts Payable Module and pulls up the Invoicing Accounting Detail interface. The AP Clerk inputs the vendor name, invoice number, the amount, the general ledger coding, the invoice date, etc. If the invoice does not have an invoice number, the AP Clerk generally finds a way to abbreviate reference information so the invoice can be easily identified and duplicate payment can be avoided. The system will give an error message if a duplicate invoice is entered into the system.

After the invoices have been input into Zzzzzz, the AP Clerk generally files them alphabetically in the pending drawer until the invoices are ready to be paid. The AP Clerk also maintains a Priority Billing Book where invoices requiring special handling are kept (e.g., COD, partial payments, deposits, etc). The invoices are kept in the pending file or Priority Billing Book until the AP Clerk is ready to pay them.

To the extent that there are any vendor disputes or claims for unpaid invoices, the AP Clerk generally goes into the vendor history within Zzzzzz to perform research. In addition, the AP Clerk will also review the vendor file maintained in the filing cabinet as appropriate. Notations are also made in the AP Clerk's daily planner as well as on the invoices as necessary.

Vendor statements, to the extent supplied, are reviewed and reconciled to the "AP Supplier History" report in Zzzzzz. This reconciliation is performed either by the AP Clerk or F&B Director.

Credit memos are input into Zzzzzz by the F&B Director or AP Clerk as appropriate and deductions are taken from the invoice automatically in Zzzzzz once the credit memos are input and coded in the system.

### **III.12 Check Requests**

The Company occasionally allows the use of Check Requests for expenditures such as training, donations, etc. A department manager submits a "Request for Disbursement" form which must be approved in accordance with the monetary limits outlined in Section 12, "Expenditure Authority Limits." In addition, supporting documentation is required to be submitted. The check request is input into Zzzzzz following the same general procedures as outlined in section III.11, "Invoice Handling."

### **III.13 Disbursements**

The AP Clerk generally performs a check run once a week on Tuesdays or Wednesdays. The AP Clerk begins this process by performing a cursory review of the Priority Billing Book noting any special arrangements requiring attention. The AP Clerk prints an accounts payable invoice aging report from Zzzzzz choosing an "as of" date approximately 10 calendar days from the date of the check run. This report lists all open invoices individually by vendor and ages the invoices based on the payment terms indicated in the master vendor set up. The AP Clerk reviews each invoice listed on the aging and determines what needs to be paid during the current check run.

Once the AP Clerk identifies all invoices requiring payment, the AP Clerk goes into the disbursements section of Zzzzzz. The AP Clerk types in the vendor name and a list of open invoices shows up on the disbursement screen. The AP Clerk selects the invoices that will be paid during this check run. The AP Clerk also has to select the bank account from which the funds will be disbursed. The check number and check date is automatically generated by the system. This step is performed for each vendor and invoice being paid. After the AP Clerk is done selecting the invoices for payment, a disbursement report is run showing all checks that will be printed.

Once the final review and verification is completed, the AP Clerk takes the disbursement report to the Controller and requests check stock with check numbers matching the disbursement register. See "Treasury Management Cycle" for additional information regarding check stock and related controls.

The AP Clerk immediately prints all the checks onto the pre-printed check stock and makes a photo copy of each check. The AP Clerk clips the original unsigned check to a voucher package consisting of the check copy, the invoice and related supporting documentation. The accounts payable aging report, disbursement report, checks and voucher packages are immediately submitted to the Controller for review and approval.

The Controller performs a detailed review of the aging, the disbursement report, the checks and the voucher packages. The Controller follows up with the AP Clerk and department managers as appropriate for any unusual items. After the Controller completes the review, the Controller signs off on each voucher package indicating approval. The Controller then gives the entire package to the appropriate check signers for review, approval and signing of the checks. See "Treasury Management Cycle" for signatories.

Once the checks are signed, the package is returned to the Accounts Payable Clerk. The AP Clerk immediately mails or distributes the signed checks (note: the AP Clerk is responsible for taking all outgoing mail to the post office).

The AP Clerk keeps an individual vendor file for all vendors with three or more voucher packages for the year. All other voucher packages are filed in an alpha-miscellaneous file (i.e., "Misc-A", "Misc-B", etc). All invoices/voucher packages are immediately filed in the filing cabinet after payment.

The AP Clerk is also required to print checks outside of the normal check run (e.g., on-demand checks, garnishments, etc). The procedures in this Appendix are generally followed for on-demand checks.

As previously mentioned, the Company is in progress of converting the accounts payable function to Infinium. The Company will utilize the banks' positive pay service once the conversion is completed.

### ***III.14 Void Checks, Check Cancellation, Unclaimed Property***

Unissued checks that need to be voided are stamped void on several locations of the check and given to the Non-Gaming Accounting Manager for reconciliation and storage. The Director of Finance and the bank signatories are the only personnel authorized to call the bank or go online to perform stop payments. Stop payments are communicated to the Non-Gaming Accounting Manager and AP Clerk as necessary for the purposes of voiding the checks in the system and reconciliation. See "Treasury Management" appendix for additional information regarding bank signatories and authority.

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In the event that there are unclaimed checks, the Controller ensures timely compliance and filing with the Nevada State Treasurer's Unclaimed Property Division.

**III.15 *Travel and Entertainment Expenses and Corporate Credit Cards***

The Company incurs a limited amount of travel and entertainment expenditures which are reported by employees on an Excel-based expense report. Employees are generally required to obtain authorization from their department head and/or the General Manager prior to incurring any expenses for which they expect to be reimbursed. Individual expenditures are also subject to the limitations outlined in Section 12, Expenditure Authority Limits.

Supporting receipts and a business explanation must be provided for all expenditures. All expense reports must be reviewed and approved by the appropriate department head *and* the General Manager.

After receiving the expense report, the AP Clerk reviews it for mathematical accuracy, and proper approval. The AP Clerk also vouches each expense to the original receipt and writes down the general ledger coding for each item. The expense reports are then input into the system and paid in a manner consistent with the procedures described in Sections III.11 and III.13 above.

The Company also issues corporate credit cards to select authorized personnel. These corporate cards have pre-established limits and are generally used for travel and entertainment expenditures. In addition, there is a corporate credit card that is kept locked in the casino cage for emergency purchases and gas for the "Vegas Run" truck. A log sheet is kept in the cage for authorized personnel who need to use the card. The authorized user is required to return the card and receipts to the casino cage.

The credit card statements are sent directly to the Director of Finance in Las Vegas. The Director of Finance reviews the credit card statements for reasonableness and supplies them to the AP Clerk for reconciliation and payment. The AP Clerk obtains all of the receipts from each person who has a corporate card as well as the casino cage. The AP Clerk vouches the receipts to the credit card statement and codes the expenditures based on the product purchased or services rendered. The credit card statement/invoice is entered into the system and paid in a manner consistent with the procedures described in Sections III.11 and III.13 above.

**III.16 *Cut-off procedures***

During the month-end closing process, the AP Clerk in conjunction with the Non-Gaming Accounting Manager performs a search for unrecorded liabilities to ensure all invoices are accrued and recorded in the proper period. This search generally includes the following:

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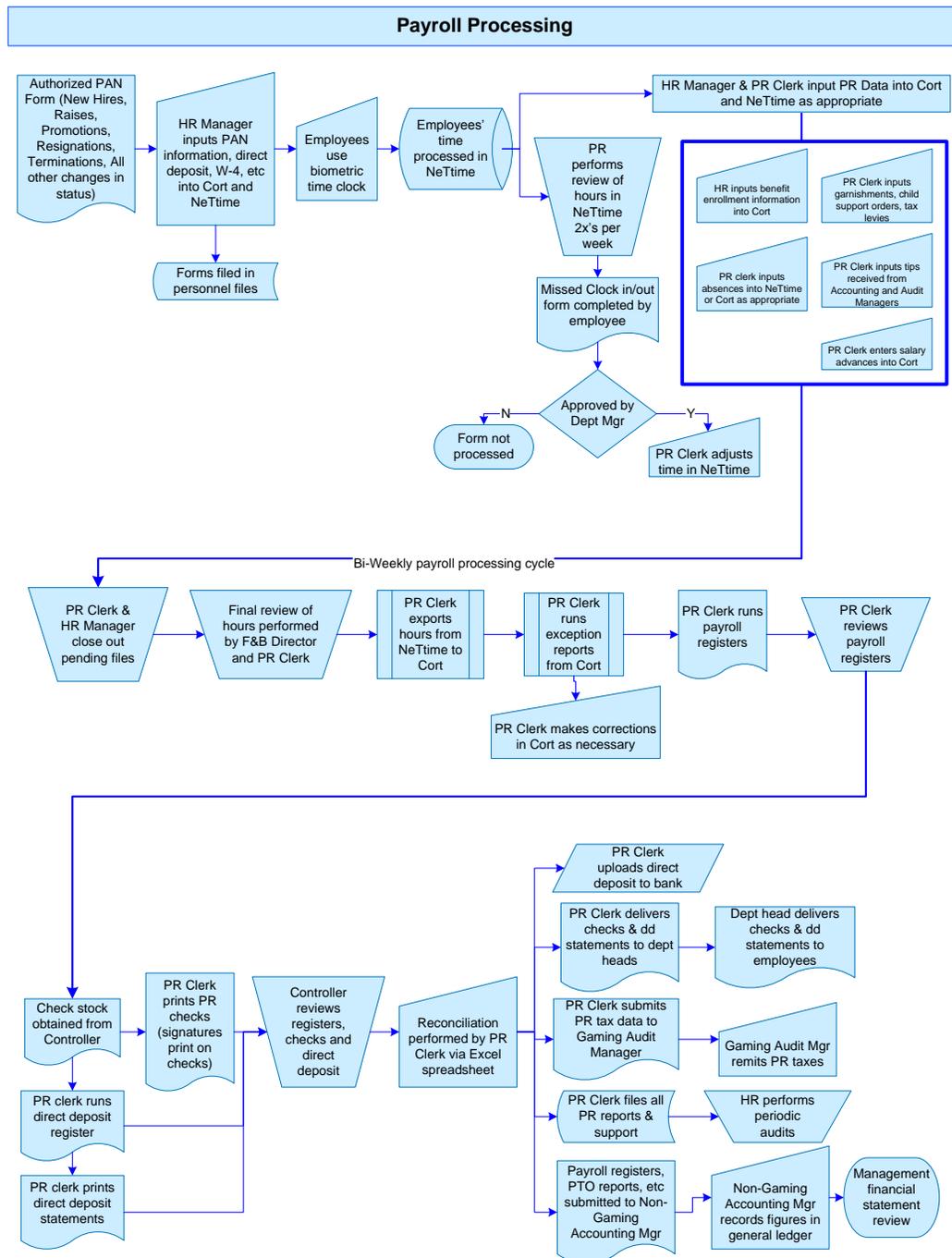
- Review of the Zzzzzz disbursement register and related support for all payments made subsequent to period end but prior to closing
- Review of bank statements and all related support for all post-close wire transfers, direct debit, EFT and ACH transactions made subsequent to period end but prior to closing
- Desk search of all open invoices, purchase orders, packing slips and merchandise arrivals
- Review of pending file and Priority Billing Book
- Review of open purchase orders and merchandise arrivals in Zzzzzz
- Inquiry of all departments to ensure all invoices have been approved and turned into the AP Clerk
- Inquiry of all department heads for any outstanding purchase commitments and assurance that there are no adverse commitments (rare)

These procedures are reviewed by the Controller as part of the closing process to ensure proper accrual of period-end liabilities.

## APPENDIX IV – PAYROLL CYCLE

The Human Resources (HR) and payroll policies of the Company are described in the Employee Handbook and are incorporated herein by reference.

### IV.1 Payroll Cycle Flowchart Overview



## ***IV.2 Payroll-Related Systems***

The Company currently uses Cort Payroll (Cort) which is a Windows-based software application designed to process payroll. Effective January 1, 2007, Infinium Payroll (Infinium) will be utilized instead of Cort. The policies and procedures described in this appendix will be updated to reflect the change from Cort to Infinium. NeTtime, a Web-based time and labor management application is used for time and attendance tracking.

Tax tables and other regulatory rates changes are sent as a system upgrade or update by Cort. A notification is generally sent to the IT Manager and HR Manager as well as to the Payroll Clerk. The IT department works directly with Cort and handles all system upgrades and testing from an IT perspective. The Payroll Clerk and Controller review the propriety of payroll data and calculations after the updates are completed.

Refer to the Company's IT Manual for discussion of policies, procedures and controls surrounding information security, systems management, planning and monitoring, computer and application controls, backup and recovery, software licensing, etc.

## ***IV.3 Employee Hiring***

Department supervisors and managers are authorized to solicit and receive applications and interview candidates for existing positions where replacement is required. The hiring manager or supervisor has the authority to establish compensation for the position as long as the wage or salary is in accordance with the Company's current compensation scale. The Company's senior management periodically reviews and updates the compensation scale to reflect local market conditions.

The General Manager, in conjunction with the HR Manager, approves the creation of all new positions and signs an HR authorization form indicating approval. Written employment contracts, if any, must be approved by the Management Committee.

After the hiring supervisor or manager has made a decision on the candidate to whom he or she desires to offer employment, the manager or supervisor completes and signs a Personnel Action Notice (PAN Form) which is reviewed, approved and signed by the department manager. After the PAN Form is approved by all appropriate parties, the candidate is taken to the HR Manager for processing.

## ***IV.4 New Employee Processing***

The hiring manager or supervisor presents the candidate to the HR Manager along with the PAN Form. The HR Manager sets the candidate up to take a drug test administered by an offsite third party vendor. For positions requiring gaming registration, once the HR Manager receives notification of satisfactory drug test results, the HR Manager provides paperwork and instructions to the candidate to complete the gaming registration process as proscribed by the Nevada Gaming Control Board. Once the candidate completes the gaming registration process, the HR Manager performs an online check on the Nevada

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Gaming Control Board website to ensure that the gaming registration is completed without exception and that the employee is permitted to work in the gaming industry. The HR Manager also checks the website for employees who already have their gaming registration on file with the Nevada Gaming Control Board.

After satisfactory completion of the gaming registration process and receipt of satisfactory drug testing results, the candidate is then required to review and complete a new hire packet provided by the HR Manager. The new hire packet consists of the following:

- New Hire Information Form
- IRS Form W-4 - Employee's Withholding Allowance Certificate for Federal tax purposes
- Department of Homeland Security and U.S. Citizenship and Immigration Services Employment Eligibility Verification Form (Form I-9).
- Authorization and Release forms to conduct background and credit checks<sup>1</sup>
- Equal Employment Opportunity Form
- Direct Deposit Form
- Confidentiality and Non-Disclosure Agreement
- Business Equipment Agreement
- Workplace Safety Form
- Job Description of position in which the candidate is being hired
- Tips Instruction Form
- Employee Handbook

In addition to review and completion of the aforementioned, the HR Manager photocopies the candidate's identification as required in the Form I-9. The candidate is also required to review and sign the Employee Acknowledgement Form in the back the Employee Handbook. All candidates are also required to review a workplace safety video. Certain food and beverage personnel are required to obtain a current health card which is kept on file in the Human Resources department's personnel files in accordance with state and local ordinances.

Once the aforementioned is completed, the HR Manager assigns the employee an employee identification number. Note that the HR Manager maintains a book listing unused employee numbers and assigns the next available employee number listed in the book. The assigned employee number is also imprinted on the employee's Company-issued photo identification card which must be worn by all personnel while on duty. A copy of the identification card is also maintained in the employee's personnel file in the Human Resources department.

The HR Manager enters the new employee number and fills in the employee's information from the PAN Form, the employee's W-4, the Direct Deposit Form, and the New Hire Information sheet into Cort and into NeTtime as appropriate. The HR Manager

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<sup>1</sup> Background checks – Although an authorization and release form is obtained from all newly hired employees, the Company generally does not perform background checks except when filling the General Manager, Director of Operations or Controller positions. The Company primarily relies on the examination process performed by the Nevada Gaming Control Board and the Nevada Gaming Commission.

also inputs the appropriate information into the system to ensure overtime is automatically calculated based on the employee's position and in compliance with state and federal laws. Exempt salaried personnel are entered into Cort and NeTtime as working a standard 80 hours per bi-weekly pay cycle.

After all input into Cort and NeTtime is completed, the HR Manager signs off the PAN Form evidencing input of the data into the systems.

After the newly hired employee is entered into the Cort and NeTtime systems, the HR Manager shows the new employee the time clock terminal and walks the new employee through the procedures for clocking in and out of the system.

#### ***IV.5 Time and Attendance Tracking***

Hourly employees are required to use biometric time clock terminals to clock in and out at the beginning and end of their shifts or anytime they leave property during their shift. The biometric time clock terminals verify each employee's identity based on the unique size and shape of their hand which greatly reduces the possibility of inappropriate use of the time clocks or fraudulent clocking in and out. In order to clock in or out, the employee types in his or her employee number into the biometric terminal and then the terminal requires the employee to insert his hand into the terminal for verification.

In the event that the employee had a problem with the time clock or could not accurately clock in or out, the employee is required to go to their supervisor or department head and complete a "Missed Clock In/Out & Overtime Report" form and have their manager or supervisor sign the form. This form is also used to approve any pre-authorized overtime. The "Missed Clock In/Out & Overtime Report" is submitted by the department head or supervisor to the Payroll Clerk for processing.

Every Monday and Friday, the Payroll Clerk reviews a NeTtime report by department to ascertain the propriety of hours processed in the system for each employee. If the Payroll Clerk identifies any issues or unusual activity, the department manager is contacted and corrective action is taken as necessary.

#### ***IV.6 Deductions, Adjustments and Changes in Employment Status***

##### ***Taxes***

Taxes are automatically calculated in the system in accordance with Federal, State and Local regulations (see "System" section regarding system updates to tax tables) and the Employee's entries on the form W-4 input into the system by the HR Manager.

##### ***Benefits***

The Company offers a health benefit plan, a pre-tax cafeteria plan as well as other supplemental coverage. New full-time employees become eligible to participate in these plans after a six month waiting period and other employees are eligible to join or cancel enrollment in these plans during annual open-enrollment periods. Currently the Payroll

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Clerk is responsible for Benefits enrollment. Upon an employee's enrollment into these various plans, the Payroll Clerk inputs the deductions into Cort and maintains a file of the forms in the Payroll area.

***Gratuities***

Normal gratuities are manually input into Cort by the Payroll Clerk based on information provided by the Gaming Audit Manager for all gaming areas or the Non-Gaming Accounting Manager for food & beverage distributed tips, as appropriate. Gratuities paid in accordance with the Company's tip compliance agreement are automatically programmed and calculated in the system.

***Time off and Tardies***

Vacation time, jury duty, FMLA leave, disability, military and unpaid excused absences are recorded on the "Request for Time Off" 3-part form which must be completed and signed by the appropriate department manager or supervisor and turned into the HR Manager not less than 30 days prior to the request. In addition, bereavement, sick time and other absences are also recorded on the forms, reviewed and signed by the department supervisors or managers and turned in to the HR Manager.

The completed Request for Time Off forms are reviewed and approved by the HR Manager. One copy of the form is retained by the HR Manager for inclusion into the HR department files, another copy is forwarded to the Payroll Clerk for processing and the third copy is provided to the employee. The Payroll Clerk inputs the time adjustments into NeTtime and Cort as necessary depending on whether the employee is hourly or salaried.

Employees are also allowed to request their vacation check in advance of taking their paid leave. The employee's vacation time must be fully vested in order to submit a request. This request is generally indicated on the Request for Time Off form and must be approved by the department manager or supervisor, the HR Manager and the Controller. In the event of a vacation advance payment, an on-demand check is processed by the Payroll Clerk and adjustments are made as necessary to the payroll processing cycle by the Payroll Clerk to ensure there is no double count or overpayment.

The HR Manager periodically reviews system reports from Cort and NeTtime to determined employees' adherence to the Company's time and attendance policies. On a bi-weekly basis, the Payroll Clerk uses a system report from NeTtime to input "tardies" into Cort to facilitate the HR Manager's review.

***Tax Levies, Garnishments, Child Support and Other Judgments***

The Payroll Clerk is responsible for receiving and inputting any tax levies, garnishments, child support orders, etc into Cort. A copy of any garnishment or wage attachment is provided to the applicable employee. At the closing of the payroll cycle, a system report and copy of the order is provided to the Accounts Payable department for processing of the payments to the appropriate authorities.

***Salary Advances***

Salary advances are made only in emergency situations or at commencement of employment when a candidate may need a \$75 advance to complete their gaming

registration (note that in the event that the candidate is not hired, the \$75 is written off to recruiting/Human Resources departmental expense).

In the case of emergency advances, an employee is required to get a "Paid Out" slip from the Casino Cage which must be approved by the Controller or the Director of Operations and the General Manager. The "Paid Out" slip will indicate the amount of the advance and the repayment terms. The money is provided to the employee at the Casino Cage based on the approved "Paid Out" slip.

A copy of the "Paid Out" slip is retained at the Cage and submitted to the Gaming Audit Manager with all of the day's cage paperwork and the other copy is forwarded to the Payroll Clerk for processing. The Payroll Clerk inputs the salary advance information into the Cort System in accordance with the repayment instructions on the "Paid Out" slip. The Payroll Clerk then makes a notation on the paperwork indicating that the advance repayment has been processed.

#### ***Raises and Promotions***

Performance reviews are periodically completed by department managers and/or supervisors and raises and promotions are determined at the discretion of senior management. All raises, transfers, promotions or other material changes in status are documented on a PAN Form and reviewed and approved by the Department Manager, the HR Manager, and the General Manager. Once the PAN Form is fully authorized, the HR Manager inputs the information into the Cort system as well as NeTtime as appropriate.

#### ***Resignations and Terminations***

The HR Manager is immediately notified by Department supervisors and managers of voluntary terminations. The HR Manager is generally involved in involuntary terminations along with the department manager or supervisor. All terminations and resignations are recorded on the PAN Form by the HR Manager or Department Manager and immediately input into the Cort and NeTtime system by the HR Manager. Upon termination, the department supervisor or manager obtains the employee's badge, uniform, keys, etc. The HR Manager notifies the IT department so the employee's access to any of the Company's systems can be immediately terminated.

### ***IV.7 Payroll Processing, Disbursement and Distribution***

#### ***Payroll Processing***

The Company's employees are paid on a bi-weekly basis with each pay period beginning on Monday and ending 14 calendar days later on a Sunday. Payroll is processed by the Payroll Clerk on Tuesdays with check distribution and direct deposit funding on Thursday.

On the Monday prior to pay day, the Payroll Clerk begins the cycle by running a "Double-back" report out of NeTtime. The Payroll Clerk also provides this report to the Food and Beverage Director for review of the Bar, Banquet, Restaurant, Purchasing and Receiving employee hours. This report is generally reviewed to ensure that every person in every department has reported hours, overtime hours are properly calculated and coded, hours processed are reasonable and consistent, etc. If any errors or unusual activity is noted,

corrective action is immediately taken. In addition, the Payroll Clerk ensures that all vacation/PTO time is entered into NeTtime for salaried personnel to capture the time they have taken off during the period and for any vacation advances paid out. See the "Time Off" section.

On the Monday prior to pay day, the HR Manager goes through the HR Department pending file to ensure that all PAN Forms have been input into the system prior to payroll closing. On the Tuesday prior to pay day, the Payroll Clerk goes through the pending file to ensure that all payroll processing forms for the period have been input into the system (e.g., requests for time off, advances, missed clock in/out reports, garnishments, etc).

Once the pending file(s) have been closed out, the Payroll Clerk performs an export of the hours out of NeTtime into a comma-separated value text file. The export file contains a listing of each employee number and a break out of each employee's time into regular, overtime, vacation time, personal time, etc. The Payroll Clerk opens the export file and reviews it for propriety.

Once the Payroll Clerk's review is completed, the file is imported into Cort. The Payroll Clerk auto-generates hours for the salaried personnel in Cort which calculates or prorates salaries as appropriate for any vacation or personal time manually entered.

The Payroll Clerk then runs exception and review reports out of the Cort system and makes any final checks for things like tip issues, incorrect worker's comp rates, employees with dates incompatible with the payroll cycle, employees who may have been entered into NeTtime but erroneously omitted from Cort, Medicare and FICA issues, consistency with prior periods, checks for persons who were termed, etc. If any unusual items are noted, follow-up and corrective action is taken by the Payroll Clerk and HR Manager as necessary.

### ***Disbursement***

Once the final review and verification is completed, the Payroll Clerk prints a check register and goes to the Controller and requests payroll check stock with check numbers matching the check register. See "Treasury Management Cycle" for additional information regarding check stock and related controls. The Payroll Clerk immediately prints all the payroll checks (note that the signatures are automatically printed on the checks) and performs a final review of each check. The Payroll Clerk also processes direct deposit in Cort.

Once the checks and direct deposit are finalized, the Payroll Clerk gives all of the checks to the Controller along with the detailed check register and direct deposit report for final review and approval. The Controller reviews the checks and direct deposit report to ensure reasonableness of the check amounts, validity of payees, no duplications, propriety of deductions, adjustments, etc.

After the Controller approves the direct deposit, the Payroll Clerk goes online to submit the file to the Company's bank in accordance with the bank's direct deposit upload instructions. After the upload, the Payroll Clerk verifies the total amount transmitted as confirmed by the bank with the direct deposit report from Cort.

***Check Distribution***

Once the Controller has approved the checks and direct deposits, the Controller returns the checks to the Payroll Clerk. The Payroll Clerk pulls out any checks marked “final” and gives them to the Controller for direct distribution to termed employees. The remaining checks and direct deposit statements are inserted and sealed into individual windowed envelopes and provided to the department managers and supervisors for distribution.

If the “final” paycheck is not picked up by an employee who is termed or who resigned, the Controller will hold the check for approximately three weeks and send the check to the termed employee via certified mail.

In the event that there are unclaimed checks, the Controller ensures timely compliance and filing with the Nevada State Treasurer’s Unclaimed Property Division.

***IV.8 On-Demand Checks***

In the event that a payroll adjustment is required due to an error on a previously issued paycheck, a Missed Clock In/Out & Overtime Report form must be filled out and signed by the department manager or supervisor. If the paycheck correction is the result of employee error, the error correction is reflected in the employee’s next paycheck. If the error is made by the Company, the employee is given an adjustment check immediately or as soon as the error is verified, computed and approved. Note that the Payroll Clerk must check out pre-printed check stock from the Controller in order to process an on-demand adjustment check. Once the check is printed, the supporting documentation and the check are provided to the Controller for review and approval prior to distribution.

***IV.9 Reporting and Filing***

The Payroll Clerk completes a spreadsheet reconciliation of the payroll totals to ensure that the total payroll balances within the Cort system. In addition, the Payroll Clerk provides payroll tax reports to the Gaming Audit Manager to facilitate timely remittance and reconciliation of employment taxes. The Payroll Clerk also provides a detailed check register, direct deposit register, an on-demand check report and a vacation/PTO accrual report to the Non-Gaming Accounting Manager for review and recording into the Company’s financial statements.

When the payroll cycle is satisfactorily completed, the Payroll Clerk prepares an envelope containing all processing forms, check and direct deposit registers, the on-demand check report, correspondence, tip spreadsheets, reconciliations, etc. This envelope is marked with the pay date and payroll period number. The envelope is filed in a locked cabinet in the payroll area. The HR Manager periodically performs audits of the payroll closing envelopes.

Monthly income statement reviews are performed by each department manager or director as well as senior management. During this review process, all department heads

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are required to investigate or explain any significant variations from budget or prior trends and follow up on any unusual activity that deviates from management's expectations.

The HR Manager and Gaming Audit Manager work together to ensure compliance with the Nevada Gaming Control Board's employee registration, reporting and filing requirements.

Also see "Treasury Management Cycle" Appendix II for discussion of bank reconciliation and statement reviews.