STATE OF WASHINGTON
GAMBLING COMMISSION

In the Matter of the Suspension of the Licenses to Conduct Gambling Activities of: Lucky 21 Casino, Woodland, Washington, Licensee.	No. CR 2014-02110 **NOTICE OF ADMINISTRATIVE CHARGES AND OPPORTUNITY FOR ADJUDICATIVE PROCEEDING**

I.

The Washington State Gambling Commission issued Lucky 21 Casino, organization number 00-22918, the following licenses:

- Number 67-00322, Authorizing House-banked Cardroom activity; and
- Number 05-21182, Authorizing Class "A" Punchboard/Pull-Tab activity.

The licenses expire on June 30, 2015, and were issued subject to the licensee's compliance with state gambling laws and regulations.

II.

David Trujillo, Director of the Washington State Gambling Commission, charges the licensee with the following violations of the Washington State Gambling Act, 9.46 RCW, and WAC Title 230:

SUMMARY:

The licensee failed to notify Commission staff of loans made to the business, and of a new substantial interest holder who is a 1.5% owner in Lucky 21.

FACTS:

1) On August 27, 2014, a Washington State Gambling Commission Special Agent (agent) conducted an on-site records review at Lucky 21. During the review, it was noted that Lucky 21 did not submit information on loans from members in 2013. The following details what was reported on the financial statements compared to disclosures on file with the Commission.

2) The following was reported on the Financial Statements of Cash Flows:
   - Loans received from members: $924,000
   - Principal repaid on member loans: ($100,000)
   - Members Contributions: $650,000

3) The following was reported under the Notes to the Financial Statements as Note #4:
   - Notes Payable Dan Yan: $487,000
   - Notes Payable Tina Lei: $337,000

4) The Lucky 21 Financial Statements and Statement of Cash Flows for the fiscal year ending December 31, 2013, disclosed the following:

Description	**Loan**	**Contribution**
Loans from stockholders	$924,000	
Principal repaid on members loans	($100,000)	
Members Contributions		$650,000
Total FYE	$824,000	$650,000
Total Loans and Contributions		$1,474,000

5) As of January 30, 2014, the following loans and contributions had been disclosed to Commission staff by Lucky 21 concerning the time period for December 31, 2013:

Person	**Loan**	**Contribution**
Tina Lei	$100,000	$237,000
Dan Yan	$50,000	$237,000
Ping Chen	$0	$550,000
Patrick Lin	$0	$100,000
Total	$150,000	$1,124,000
Total Loans and Contributions		$1,274,000

6) Comparison of financial statements and disclosures revealed several issues:

- Tina Lei's capital equity contribution of $237,000 had been changed to a loan, which had not been disclosed.

- Dan Yan's capital equity contribution of $237,000 had been changed to a loan, which had not been disclosed.

- Dan Yan's total loans and contributions according to what had been disclosed was $287,000. According to the financial statements, he is due $487,000 in a note, a $200,000 difference from what had been disclosed.

7) During the on-site investigation, the agents requested and reviewed accounting records for Lucky 21. Specifically, the agents looked at the shareholder loans accounts. These are accounts 25001 (Loans from Tina Lei) and 25002 (Loans from Dan M. Yan). These accounts showed several more undisclosed loans.

   The 25001 Loans from Tina Lei account showed the following undisclosed loans and relevant debits:

Date	Memo	Debit	Credit
11/27/2013	Cashier's Check		$50,000
12/6/2013	Deposit		$140,000
12/9/2013	Repayment of loan to Tina	$140,000	
5/3/2014	Deposit		$35,000
5/14/2014	Loan from Tina		$200,000
5/19/2014	Repayment of loan borrowed on 1/30/2014	$50,000	
6/9/2014	Partner Loan		$200,000
6/10/2014	Repayment pm 5/14/14 loan	$200,000	
	Total Non-Disclosed		**$625,000**

The 25002 Loans from Dan M. Yan account showed the following undisclosed loans and relevant debits:

Date	Memo	Debit	Credit
10/25/2013	Deposit		$50,000
12/18/2013	Deposit		$200,000
5/3/2014	Deposit		$35,000
5/9/2014	Check number 2202		$80,000
5/16/2014	Repayment of loan borrowed on 5/9/2014	$80,000	
5/19/2014	Repayment of loan borrowed on1/20/2014	$50,000	
	Total Non-Disclosed		**$365,000**

8) The combined total on non-disclosed loans to the company is $990,000. These transactions were not disclosed to Commission staff until they were uncovered during the on-site investigation on August 27, 2014. These transactions did not change the stock ownership levels in the company.

9) On August 27, 2014, the on-site investigation uncovered an account referencing Alex Don's owner contributions. Mr. Don was not disclosed to Commission staff as an owner. It was determined through a review of documents and an interview with owner Tina Lei that Mr. Don had bought into the business for $9,000 as a 1.5% owner.[1] Later in the investigation, an LLC Membership Admission Agreement was provided to Commission staff showing Mr. Don was added as an owner on January 14, 2014.

10) Previously, on June 19, 2014, the Program Manager for the Commission's Financial Investigations Unit sent a warning letter to Dan Yan for failing to notify Commission staff about cash contributions and changes to Lucky 21's ownership structure. The letter explained the laws and rules violated and provided copies of those regulations.

[1] The amount of money invested is below the reporting threshold for a source of funds review. However, any new ownership interest or substantial interest must be disclosed to Commission staff within 30 days.

VIOLATIONS:

1) RCW 9.46.075 Denying, suspending, or revoking of a license, or permit
Provides that the commission may deny an application, or suspend or revoke any license or permit issued by it, for any reason or reasons, it deems to be in the public interest. These reasons shall include, but not be limited to, cases wherein the applicant or licensee, or any person with any interest therein:
(The following subsection applies.)

(1) Has violated, failed or refused to comply with the provisions, requirements, conditions, limitations or duties imposed by chapter 9.46 RCW and any amendments thereto, or any rules adopted by the commission pursuant thereto, or when a violation of any provision of chapter 9.46 RCW, or any commission rule, has occurred upon any premises occupied or operated by any such person or over which he or she has substantial control.

(7) Makes a misrepresentation of, or fails to disclose, a material fact to the commission;

2) WAC 230-03-085 Denying, suspending, or revoking a license or permit
We may deny, suspend, or revoke any application, license or permit, when the applicant, licensee, or anyone holding a substantial interest in the applicant's or licensee's business or organization:
(The following subsections apply.)

(1) Commits any act that constitutes grounds for denying, suspending, or revoking licenses or permits under RCW 9.46.075.

(3) Has demonstrated willful disregard for complying with ordinances, statutes, administrative rules, or court orders, whether at the local, state, or federal level.

(7) Fails to provide us with any information required under commission rules within the time required, or, if the rule establishes no time limit, within thirty days after receiving a written request from us.

(8) Poses a threat to the effective regulation of gambling, or creates or increases the likelihood of unfair or illegal practices, methods, and activities in the conduct of gambling activities, as demonstrated by: (a) Prior activities.

3) WAC 230-06-080 Report changes to application information and submit updated documents and information.
(The following subsections apply.)

(1) Licensees must notify us in writing if any information filed with the application changes in any way within thirty days of the change.

(2) Licensees must submit to us any new or updated documents and information within thirty days of the effective date of the document or information, including the following:
(b) All oral or written contracts and agreements which relate to gambling activities or alter the organizational structure of the licensee's organization or business activities in Washington; and
(c) All cash or asset contributions, draws from lines of credit, and loans (except those from recognized financial institutions) during any calendar year which by themselves or totaled together are more than ten thousand dollars. Cash or asset contributions do not include donations to licensed charitable or nonprofit organizations

4) WAC 230-06-107 Ownership changes—Allowed.
(The following subsections apply.)

A licensee must report any change in ownership when the change would result in any person or organization becoming a substantial interest holder. Changes in ownership are allowed under the following conditions:
Ownership changes to be reported
(1) The following changes must be reported to us when:
(a) A person or organization becomes a substantial interest holder when they were not a substantial interest holder immediately before the transaction; or
(b) A substantial interest holder purchases any additional stock.

In June 2014, the licensee received a warning letter for failing to notify Commission staff of cash contributions and a change to its ownership structure, in violation of WAC 230-06-107. The licensee demonstrated willful disregard by failing to notify Commission staff of subsequent loans made to the business as required, as well as a new substantial interest holder in Lucky 21, in violation of WAC 230-06-080 and WAC 230-06-107. This repeated conduct of failing to comply with Commission rules demonstrates the licensee poses a threat to the effective regulation of gambling, or creates or increases the likelihood of unfair or illegal practices, methods, and activities. Therefore, grounds exist to suspend Lucky 21 Casino's licenses under RCW 9.46.075(1) and (7), and WAC 230-03-085(1), (3), (7), and (8).

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III.

Jurisdiction of this proceeding is based on 9.46 RCW, Gambling, chapter 34.05 RCW, the Administrative Procedure Act, and WAC Title 230.

The licensee will have the opportunity to have a hearing on the alleged violations.

In order to have a hearing or discuss settlement options, the enclosed request for hearing must be completed and returned to the Gambling Commission **within 23 days** from the date of the mailing of this notice.

Based on RCW 34.05.440, failure to return a request for hearing will result in the entry of a default order SUSPENDING YOUR LICENSE FOR 30 DAYS.

IV.

I have read this Notice of Administrative Charges and Opportunity for an Adjudicative Proceeding, know the contents of it, believe it to be true, and have executed this Notice in my capacity as Director of the Washington State Gambling Commission.

Dated 6/18/2015

DAVID TRUJILLO, DIRECTOR

STATE OF WASHINGTON)
)
COUNTY OF THURSTON)

I certify I have this day served a copy of the document upon all parties of record in the proceeding by mailing a copy, properly addressed with postage prepaid, by regular and certified mail to each party to the proceeding or his or her attorney or authorized agent.

Dated at Olympia, Washington this 22 day of JUNE, 2015.