

Headline News:

4/28/12: Canterbury, Tribe Reach Agreement on Gambling Expansion
(www.chanvillager.com)

4/23/12: WinnaVegas Casino Opens New Hotel
(www.siouxcityjournal.com)

4/20/12: Turning Stone Opens Newly Renovated Casino Hotel
(www.oneidadispatch.com)

4/10/12: Karuk Casino Coming to Yreka
(www.siskiyoudaily.com)

4/3/12: Bryan DeLugo Named Red Hawk General Manager
(www.marketwire.com)

4/1/12: Governor Brown Signs Compact with Federated Indians of Graton Rancheria
(imperialvalleynews.com)

Key Elements to a Financial Model

By Daniel Ziegler

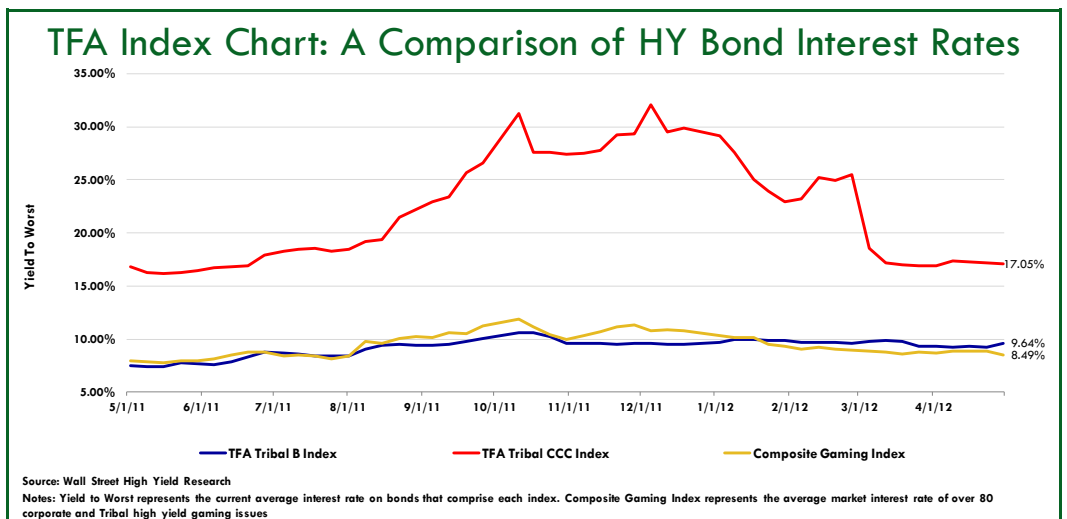
A financial model is an extremely useful and dynamic tool that tribes and their business enterprises can use in a variety of capacities. Financial models are helpful internally to analyze a tribe's general financial health or evaluate different economic development opportunities. Models are also typically required by potential third-party lenders and investors when tribes seek to raise capital. Whatever a tribe's reason or ultimate desired output from the analysis, a few key elements are vital to any financial model.

Income Statement – The income statement is important for projecting operating performance. The first step is to forecast the revenues and expenses associated with the business operations. Whether the focus is gaming, energy, natural resources or any other enterprise, it is important to seek the input of those who know the business best when making these projections. We often examine past performance to help indicate future results, in addition to using economic indicators as a proxy for how an enterprise will

perform. For example, a conservative approach may be to grow revenue at the growth rate of Gross Domestic Product (GDP) and expenses to increase with Consumer Price Index (CPI, a measure of inflation growth) – both of which are forecasted by the US Congressional Budget Office. However, it is important to consider other factors as well, such as pressure on revenues from increased competition or rising healthcare costs driving up expenses.

With revenues and expenses forecasted, one can then calculate EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization), the metric typically used in the finance community to measure a company's performance, particularly for cash-intensive businesses such as a casino. EBITDA is chosen over Net Income because it serves as a proxy for actual cash generated by the enterprise – from which interest expense, debt repayment, property reinvestment and, most importantly, distributions to the tribe can be paid – and it excludes factors

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that may vary across enterprises such as differing capital structures, accounting inconsistencies and non-recurring cash flow items.

Balance Sheet – The two primary focal points of the balance sheet are cash and debt. It is important for managers to determine the minimum required cash to run the business, so the tribe can most effectively manage its free cash. This excess cash could be applied towards diversification or investment opportunities, used to repay debt or held for liquidity. Understanding future cash flows and cash needs with a financial model can help determine the optimal use of these funds.

Arguably the most important element of a financial model is a tribe's debt structure. A financial model can analyze and illustrate how different financial goals can be met with different debt structures. Tribes can minimize interest expense and maximize debt repayment to quickly deleverage, or one could minimize debt repayment and maximize distributions. Once a tribe determines its priorities it can use the financial model to determine the best debt structure to achieve them.

With debt in place, a financial model also allows the borrower to make sure they are in compliance with their debt-related obligations and maintain adequate cushions. A model can track debt covenants such as leverage and fixed charge coverage ratios, which monitor a tribe's debt load and use of cash flow.

Cash Flow Statement – Two key elements included in the cash flow statement are capital expenditures, or a tribe's reinvestment dollars into the business, and distributions to the tribe. In order to maintain and upkeep the

tribe's assets, and consequently the cash flows they generate, it is important to appropriately reinvest in the operation. With casinos, the portion of cash that should be reinvested will vary depending on the property's age and the casino's customer base, but with any business, it is important to work with the operation's executive team to determine the proper amount of reinvestment dollars and plan for those funds accordingly.

Lastly, and of paramount importance, are the distributions sent to the tribe. Everything discussed so far has an impact on a tribe's distributions, including the enterprise's operating performance and capital structure – a financial model therefore is essential in helping to budget the cash flows that will be available for tribal distributions in the future. While tribes may have separate models for each of their enterprises, it is important to look at consolidated operations of the businesses to get a comprehensive view of the tribe's cash flows that support essential government functions and non-revenue producing needs. An effective financial model can help predict when shortfalls may occur so preventative action can be taken, or uncover where opportunities may exist to further increase distributions.

There are many moving parts to any financial model and they are all interconnected and dependent on one another. While complex, a dynamic financial model can serve as an extremely powerful resource for a tribe and its enterprises. A model is only as good as the inputs that go into it, so each assumption should be fully vetted and multiple scenarios should always be analyzed. Armed with expert financial analysis and carefully defined priorities, a tribe can establish a clear path towards reaching its financial goals.

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