



# TFA

## Monthly Newsletter

### February 2021

#### Show Me the Money: The Importance of Understanding Tribal Liquidity

By David Howard

As we continue to slog through the COVID-19 pandemic and the historically unprecedented impact on tribal economies, certain fundamental themes have emerged for tribal leaders to take note of. In a recent discussion with other professionals that work in Indian Country, we noticed how many commented that several of the tribes they work with didn't have a clear understanding of their overall tribal liquidity position. With many tribes having to abruptly close (or open and close again) their primary money maker – gaming operations – it caused tribal leaders to focus on other sources of liquidity to fund ongoing operations, necessary programs and per capita distributions. For years, tribal casinos

have provided a somewhat predictable revenue source and when it was suddenly cut-off, no one was really prepared.

What is Tribal liquidity and why is it sometimes tough to get your arms around it? In a nutshell, liquidity is how much cash is immediately available to spend. This includes cash in bank accounts and cash that can be borrowed on available lines of credit. Sounds easy, right?

Now, take a look at a tribal financial statement based on governmental accounting and find the free cash. It can be a little like finding Waldo sometimes. Why can it be difficult? Tribes have multiple cash and investment ac-

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#### IN THE NEWS

Cuomo: Mobile sports betting should benefit New York, not casinos

1/7/21 – [CDCGamingReports.com](https://www.cdcgamingreports.com)

Anchorage Assembly sets public hearing on govt-to-govt relations with Eklutna Village

1/10/21 – [MustReadAlaska.com](https://www.mustreadalaska.com)

Arizona Governor Asks Legislature To Allow Statewide Sports Gambling

1/13/21 – [KAWC.org](https://www.kawc.org)

Vegas-to-SoCal rail line could get spring construction start

1/13/21 – [ReviewJournal.com](https://www.reviewjournal.com)

Proposed bill would bring craps tables, sportsbooks to New Mexico racetracks

1/18/21 – [LCSun-News.com](https://www.lcsun-news.com)

Nine Michigan casinos begin online sports betting and gaming this weekend

1/19/21 – [ABC12.com](https://www.abc12.com)

Hawaii gambling bills under serious review

1/27/21 – [StarAdvertiser.com](https://www.staradvertiser.com)

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counts and typically operate numerous lines of business, medical operations, governmental programs in addition to the expense of running the government. In addition, there are grant funds and other resources that are restricted and are not able to be considered as available cash.

The gaming business is usually the easiest to determine because it is primarily a cash-based business. Other business operations with more complicated payables and receivables may need to be looked at closely. Often, we see intra-company loans between the tribe or a successful business enterprise propping up underperforming businesses making them look better than they really are. Liquidity for medical operations are tough to determine as the timing of IHS reimbursements make it difficult to predict cash flows. Additionally, profits and cash balances related to medical operations are typically not available for other tribal uses.

Once a tribe determines the available, unrestricted sources of liquidity, the next tall task is forecasting future cash flow needs.

Determining cash flow in the near future is very difficult given this uncertain economic environment. One way to start is to have each operating unit present a cash flow forecast versus a budget. A budget may be driven by accrual accounting and inter-company transfers and, in many instances, doesn't really reflect cash needs. A cash flow forecast should include capital improvement projects, loan proceeds, loan payments, contributions to the general fund, etc.

The result of this analysis will ideally be that each business entity accounts for how much cash it has today and it projects that cash balance to be at the end of the year. Is the entity able to contrib-

ute back to the tribe's financial coffers or does it require cash from the tribe to survive? Armed with this information, all the cash flows can be rolled up to project overall tribal liquidity.

It is this global view of the Tribe's overall liquidity position which can help in planning expenditures that are directed at the overall government level. Without this consolidated (and bottom-up) view, it is nearly impossible for a tribe's financial management to effectively do their jobs. We are always available to discuss cash flow planning strategies and would welcome the opportunity to offer insights to assist you with this type of analysis.



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