



TFA

Monthly Newsletter

June 2026

IN THE NEWS

Always look under the hood before you buy – the importance of due diligence

By David Howard

Many Tribes today are expanding their economic development enterprises in order to diversify their revenue streams and become less reliant on their tribal gaming operations. These diversification strategies require that acquisitions or investments in various operating businesses adhere to the Tribe's approved investment policy guidelines. Economic Development Boards and in many cases, Tribal Councils, are tasked with approving these investments and are entrusted to make sound decisions that protect and grow their Tribes' precious financial resources. How can they be sure they are making the right decision?

Proper due diligence on the proposed investment is paramount to the long-term viability and success

of any investment. In this newsletter, we address some of the key components of looking under the hood before you buy. But first...let's go back to early 1980's and review one the great due diligence failures on Wall Street.

ZZZZ Best. A commercial cleaning business started by a charismatic teenager became a Wall Street darling and achieved a market value over \$200 million by 1986. It was all a sham. Fictitious invoices to non-existent clients, fake shell companies and of course, a fraudsters' go to tactic...a Ponzi scheme. So how did this young "entrepreneur" get away with it? Auditors relied on management's numbers and didn't get third party verification. When the auditors did go and make site visits to large projects, management staged

Indian Affairs Releases \$20 Million in Emergency Aid to Alaska Native Villages Amid Harsh Winter Crisis
5/6/2026 – nativenewsonline.net

Wilton Rancheria expands Sacramento stadium project to \$450M sports and entertainment venue
5/10/2026 – tribalbusinessnews.com

NAFOA Honors Tribal Leaders and Enterprises at 19th Annual Leadership Awards
5/11/2026 – nativenewsonline.net

DOE opens \$3.5M microgrid funding opportunity for tribes, remote communities
5/25/2026 – tribalbusinessnews.com

DOT opens \$19M tribal transit funding round for rural projects
5/28/2026 – tribalbusinessnews.com

Fond du Lac Band set to reclaim 3,400 acres after Minnesota lawmakers approve land transfer
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IHS launches tribal long-term care construction initiative with three projects
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the whole thing and made them seem real. Investors failed to look at critical KPI's (key performance indicators) that should have alerted them that something was off. Ultimately, the scam was uncovered in 1987, and ZZZZ Best went bankrupt – only \$62,000 was recovered for investors and lenders who lost millions.

Diligence Basics. There are 3 main areas of diligence that should be thoroughly vetted prior to closing on an investment or acquisition: Operational, financial and legal diligence.

Operational Diligence – How has this company been run in the past? What will it take to maintain the anticipated level of profits that were considered in determining a purchase price? What growth opportunities exist? Diligence should revolve around the key areas of the business: competency of management, staffing turnover, customer segments and concentration, competition (future and present), inventory levels, suppliers (financial health and concentration) and the condition of any real

estate/FF&E assets.

Financial Diligence – What do the numbers say? As financial advisors, this is our favorite part to dig into. We look for trends or anomalies that could represent increased revenues or lower expenses that are not sustainable. Analysis will focus on cash flow vs EBITDA, measure industry specific KPIs, (such as profit margins, inventory turnover or accounts receivable aging), compare to industry benchmarks, and review balance sheet items that seem out of place (for example, restricted accounts, unusual inter-company transfers and liabilities that are not consistent with business operations).

Legal Diligence – Good in-house and external legal counsel is very important. In addition to working on the purchase and potential financing documentation, the attorneys will focus on the existing organizational documents, contracts in place, legal considerations (third-party approvals, licensing, etc.), debt and lease obligations, real estate appraisals and title verifica-

tions and any outstanding litigation. The buyer needs to understand all the legal risks and potential obligations that they may assume or that may impact on the target's financial prospects in the future.

When an investment passes screening and review by internal teams, it is advised to seek third party experts – both legal and operational – that have deep experience with the particular type of business or industry of the target. While internal teams and generalist reviewers are important to offer initial feedback and whether an investment clears the hurdles of the Tribe's investment policies – it is paramount to have subject matter experts involved to give a thorough review before making a commitment.

When asked to approve an investment or acquisition, Tribes need to ensure their teams have completed the industry-appropriate due diligence. We would welcome a call to discuss and we are available to assist in due diligence matters.

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