

Executive summary | Roundtable IX, July 19, 2022

# Wipfli Tribal Gaming CFO Peer Exchange

**Hosts:** Grant Eve and Barnaby Allen | Wipfli

**Facilitator:** Josh Iverson | Profitable Ideas Exchange

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# Introduction

Sixteen chief financial officers (CFOs) from tribal gaming facilities met virtually to share leading practices and discuss topics of mutual interest based on an agenda created through a series of pre-interviews.

From Wipfli, Grant Eve, national gaming partner, hosted the exchange, and Josh Iverson of PIE facilitated. Barnaby Allen, partner for gaming and hospitality at Wipfli, and Nik Wong, senior manager and leader of Wipfli's national tribal gaming finance and accounting services team, joined to provide additional insights.

The focus of the discussion covered the following topics over the course of the hour:

- Intro to GASB 87 and 96
- Market trends
- Talent considerations

# Intro to GASB 87 and 96

Wipfli's Nik Wong provided a comprehensive rundown on GASB 87 and 96, which go into effect this year (87) and in 2023 (96). These standards could have a substantial impact on financial statements depending on the number and terms of contracts.

- Piecing together slot agreements with terms from their master agreements to purchase orders can be tricky, so it's recommended to start early. Leases related to table games may be considered intangible assets and therefore will be excluded in GASB 87 reporting. In some cases, machine leases have no definite terms and will likely be reported under short-term lease structures. Complex contracts, like some related to sponsorships that include suites, will need to be separated into their lease and non-lease components.
- The basic requirement of the new lease standard is to put contracts that are both a) non-cancelable for terms greater than a year and b) have fixed payments on the balance sheet. However, if the non-cancelable term is less than a year and/or the payments are only variable on the performance of the asset, these are simply expensed as incurred.
- The standard applies to both lease expenses and lease incomes, so properties that lease space to third parties need to consider the standard from both sides of the transaction. Lease transactions between the gaming entity and the tribe or other tribal entities may fall under separate accounting guidance and not be subject to GASB 87.

# Intro to GASB 87 and 96

GASB 96 will operate similarly to the lease standard but will work with software subscriptions.

- One major difference Wong pointed out was the breakdown of the contract components, such as training, implementation and subscription costs – not all of which would be included in the right to use asset that gets recorded.
- In preparation for auditors, CFOs should make sure they pull the entirety of their potential leases, focus on selecting the appropriate discount rate(s) and make sure to install internal controls to both identify new potential and monitor existing leases for possible remeasurement.



# Market trends

Wipfli's Grant Eve and Barnaby Allen discussed budget compression and addressed some of the economic pressures disrupting the industry.

- Even with commercial revenue setting record numbers for the third month in a row, there are still some indicators pointing toward stagnation.
- As the gaming industry begins to flatten after the resurgence that began post-pandemic, CFOs are focused on economic trends, particularly the potential for recession and forecasts on consumer demand.
- Many gaming operations are just beginning to recover from their COVID-19 restrictions and have started bringing back their summer entertainment options in hopes of bringing back their pre-pandemic crowd sizes.

However, most CFOs are noticing a decline in the tourist markets. With inflation continuing to rise, many CFOs wonder if gas prices might play a factor in deterring typical one-time players. Some organizations in the group are starting to explore gas rebates, expanding bus routes, expanding loyalty programs and working with tribal gas stations on creating cross promotional deals to incentivize the commute to the more rural locations.



# Market trends

Inflationary woes are also beginning to impact budgetary approaches for 2023 as everyday items have seen significant price increases.

- CFOs for now are taking conservative stances on 2023 and are estimating spending to increase by at least 6% with fuel potentially seeing as high as an 8% increase.

Apart from general expenses, one CFO raised concerns around some of the merit increases introduced during the pandemic for frontline employees.

- With certain sectors being the most vulnerable, increasing pay creates compression. As a result, many CFOs in the group are in the process of exploring cost-of-living adjustment increases alongside the 8% rate of inflation.

# Talent considerations

As the gaming industry continues to grapple with labor shortages, CFOs have a keen interest in retention strategies to keep current employees satisfied.

- One organization has considered offering gas allowances after having already raised their minimum wage for the second consecutive year in order to stay competitive. Another member's organization is in the process of rolling out a referral program that would allow existing employees to act as recruitment specialists. Every referred new hire that stays on for longer than 90 days earns the employee \$50 per signee.

As a result of expansion, one gaming operation opened an offsite training center.

- The approach has had such great success that they're extending the program for another year. In order to attract talent, the gaming facility also offered to pay for the necessary equipment, and is also using gifts as incentives in order to retain certain positions.

CFOs discussed whether any organization was considering allowing some positions to work from home.

- With analytical and accounting positions in high demand, many CFOs are allowing them to dictate their own terms, often leading to remote positions. Working from home arrangements may also arise from necessity – one CFO felt their local market has been tapped and has decided to look remotely for some of the more independent positions.



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