

Executive summary | Roundtable XIII | July 18, 2023

Wipfli Tribal Gaming CFO Peer Exchange

Hosts: Grant Eve and Barnaby Allen | Wipfli

Subject matter expert: Jamison Scarpelli | Wipfli

Facilitator: Josh Iverson | Profitable Ideas Exchange (PIE)

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Introduction

Fifteen 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, tribal industry leader, and Barnaby Allen, partner in the tribal gaming practice, hosted the exchange; Jamison Scarpelli, senior manager in the tribal services practice, provided subject matter expertise around GASB 96. Josh Iverson of PIE facilitated.

The focus of the discussion covered the following topics over the course of the hour: implementation of GASB 96, cashless gaming and CapEx vs OpEx spending.

GASB 96

Wipfli's Jamison Scarpelli opened the call with a brief overview on the implementation of GASB 96.

- GASB 96 has some similarities in concept and application to GASB 87. But while GASB 87 focuses on capitalizing leases, GASB 96 deals with the capitalization of contracts related to software agreements.
- Implementation is retrospective, meaning prior-year financial statements will need to be restated as part of the adoption.
- To verify completeness of outstanding agreements, CFOs should consult with IT managers and review their general ledger for recurring payments or software leases.

After gathering the appropriate contracts, the GASB 96 process is similar to that of GASB 87.

- It involves recognizing a right-to-use subscription asset (an intangible asset) and a corresponding subscription liability.
- Certain agreements may not meet the qualifications for capitalization.
- GASB 96 may present some differences between casinos as a result of variations among license agreements since some casinos have terms with 30-day notices to cancel, excluding them from GASB 96, while others have longer non-cancellable terms.

GASB 96

There were questions regarding maintenance and service agreements since some contracts may involve both software usage and ongoing support.

- To break down the costs, Scarpelli suggests reviewing the software's website or discussing with a representative to identify the value of each component of the contract. However, if they are unable to find the associated cost, they will be required to capitalize the entire contract.
- Scarpelli also discussed providing consulting with clients on the financial statement disclosures.



Cashless gaming

The CFOs had interest in discussing cashless gaming as some casinos are evaluating whether to move toward its implementation.

- For some, cashless gaming is not something that has generated significant demand despite benefits of increasing security and convenience for operators and guests.
- To encourage adoption, one casino had to invest time in educating their guests about the system and guiding them through the process. The importance of choosing the right vendor was also emphasized, as any missteps would likely impact the guests' perception of the gaming operation.
- Beyond the inherent benefits it offers, incentives are likely necessary to encourage guests to embrace cashless systems.

With an adoption rate around 25%, casinos consider cashless gaming as an inevitable progression in the industry but not something that needs to be implemented urgently.

- Analyses were conducted on the implementation of cashless gaming, but the results were inconclusive, with a majority of the guests choosing to not use the system.
- The system also provided high-profile guests with a competitive advantage by helping them avoid ATM limits and fees associated with cash transactions.

Cashless gaming

The implementation of a cashless system could impact other revenue sources.

- Many casinos have material revenues from ATMs, but there haven't yet been any drastic drops in ATM usage observed.
- Cashless gaming would eliminate the need for soft count, Title 31 and anti-money laundering rules, resulting in cost savings. However, one CFO noted that cashless gaming would negatively impact gratuity.
- These challenges highlight the need for security measures and effective system integration in cashless gaming implementation.

During the evaluation of different cashless systems, one organization offered a pseudo debit card designed for on-premises transactions.

- However, there were concerns players may forget their cards, potentially leading to security issues.
- Implementation of cashless systems must be based on utilization and not just installation fees.

CapEx vs OpEx

CFOs are working closely with tribal governments to develop the capital budget and streamline the process by grouping capital projects into buckets for approval and monitoring.

- One gaming CFO was creating guidelines for distinguishing CapEX from OpEX, but by updating internal controls, there were some challenges in making them universal across multiple properties.
- Regulatory oversight and the need for multiple reviews added some challenges to implementation, but utilizing third-party consultants could help rebuild policies.

For one gaming operation, their capital threshold allowed them to remain flexible and have the ability to switch projects throughout the year.

- This helped them adapt to unforeseen emergencies in their budgeting. Some properties have a flexible budget with multiple projects, while others have a preset budget routine with contingency funds for adjustments through the year.

Cost of Doing Business Report

The 2023 Cost of Doing Business Report is now available.

- It includes data from 132 tribal casinos in the U.S.
- One notable highlight is that average revenue in 2022 increased by 17% compared to the previous year. However, average net profit decreased by just over 6% due to the challenges posed by increased expenses in the industry during the past 18 to 24 months.
- The Cost of Doing Business Report is the only tribal gaming benchmarking report in the industry.

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2021

	All casinos	High profit
Nongaming revenue	2.1%	2.4%
Hotel revenue	1.8%	2.2%
	1.5%	2.0%
	0.3%	0.2%
	44.68%	52.08%
	36.22%	47.40%
	68.50%	55.70%
	6.20%	5.48%
	18.65%	15.67%
	2.81%	2.48%
	1.0%	1.2%
	2.1%	2.2%
	47.69%	68.38%
	36.37%	61.99%
	66.27%	87.02%
	69.35%	75.63%
	\$160	\$224
	\$292	\$329
	\$668	\$1,579

Average

Note: The casinos in the \$100-\$200 million revenue category have the highest slot revenue ratio, and the casinos in the \$0-\$100 million revenue category have the highest overall equity ratio.

● Slot revenue
● Overall net profit margin

Profitability

Note: The larger casinos have higher net profit margin.

● Slot revenue
● Overall net profit margin



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