

How to Read Financial Reports

National Indian Gaming Commission



HOW TO READ FINANCIAL REPORTS

Key Points:

Welcome to the How to Read and Use Audit Reports Training

My Notes:

How to Read Financial Reports



TRUE

OR FALSE

Key Points:

ZOOM Poll –I have seen a copy of my gaming operation’s financial statements? Answer True or False

My Notes:

How to Read Financial Reports

Objectives



- Understand the three basic financial statements, and the basic parts of each
- Learn simple ratio analysis of the financial statements
- Cover additional information provided in a financial report

Key Points:

During this course, we will guide you through a Financial Report to gain a better understanding of the report's contents and how to use the information reported to evaluate the operation.

My Notes:

How to Read Financial Reports

Why look at a Financial Report?



- Provides and summarizes information about financial position; the results of operations; and cash flows of an operation
- Helps in comparing results between years
- Gives additional information for understanding an operation

Key Points:

- Financial statements will have a number of purposes which will vary depending on the user
- The Financial statements give a snapshot about the operations financial transactions in a certain period
- Helps in comparing results of prior years and serves as a benchmark to show progress

My Notes:

How to Read Financial Reports

Attestation Engagements



- What is it? An opinion in a written report about whether the subject matter is in accordance with (or based on) certain criteria
- Review – limited assurance
- Audit – reasonable assurance

Key Points:

- An attestation states whether something is in accordance with certain criteria
- An Audit requires more testing, different testing, and documentation than a review.
- An Audit provides reasonable assurance on the financial statements.
- A Review provides limited assurance on the financial statements.

My Notes:

How to Read Financial Reports

Audit vs Review



- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements...
- A review engagement includes primarily applying analytical procedures to your financial data and...

Key Points:

- The type of work performed will be clearly stated on the audit report for either an audit or a review

My Notes:

How to Read Financial Reports

“Review” Submissions to the NIGC



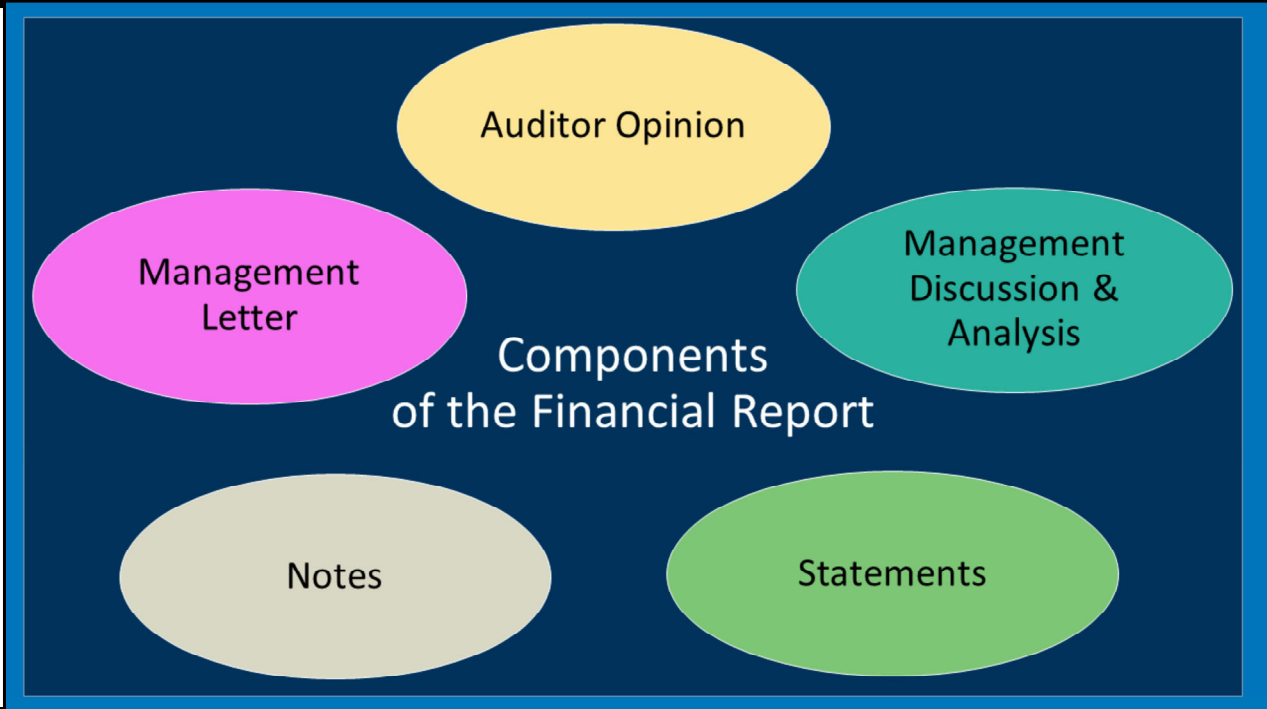
- To submit a review must meet the requirements of 25 CFR 571.12(c)
- Must have gross gaming revenues of less than \$2,000,000 during the prior fiscal year
- Have a waiver in writing by the NIGC, or the financial statements for the three previous years were submitted in accordance with § 571.13

Key Points:

- An operation must meet all requirements to submit Reviewed financial statements instead of Audited financial statements.

My Notes:

How to Read Financial Reports



Key Points:

- Auditor Opinion – auditor’s opinion or conclusion after performing testing
- Management Discussion & Analysis – management’s discussion of the financial report
- Statements – the three statements
- Notes – additional or supplemental information which helps explain the financial statements
- Management Letter – other communications from the CPA to management

My Notes:

How to Read Financial Reports

Types of Opinions



- Unqualified
- Qualified
- Adverse
- Disclaimer



Key Points:

See handouts for examples of each

My Notes:

How to Read Financial Reports

Unqualified Opinion



Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Casino as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Key Points:

Here is an example of an unqualified opinion paragraph

My Notes:

How to Read Financial Reports

Qualified Opinion



Basis for Qualified Opinion

As explained in Note 5 to the financial statements, gaming revenues are recorded at the net amount after winnings are paid out. Accounting principles generally accepted in the United States of America require that revenue is recorded at the gross amount with a corresponding expense also recorded for the winnings paid. Management believes that the amount by which this departure would affect the revenue and expenditures of these financial statements is not reasonably determinable. Management believes this will have no effect on net assets.

Opinion

In our opinion, except for the issue noted in the Basis for Qualified Opinion paragraph, the accompanying financial statements present fairly, in all material respects, the financial position of Casino as of December 31, 2020 and 2019...

Key Points:

Here is an example of a qualified opinion paragraph

My Notes:

How to Read Financial Reports

Adverse Opinion



Basis for Adverse Opinion

As discussed in note 5 to the financial statements the Casino has been using other comprehensive basis than accounting as determined by its contractual agreements instead of accounting principles generally accepted in the United States of America. The Casino has been using a modified cash basis. ...”

Opinion

In our opinion, because of the effects of the matters discussed in the preceding paragraph, the financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of Casino as of December 31, 2020 and 2019, or the results of its operations or its cash flows for the years then ended.

Key Points:

Here is an example of an adverse opinion paragraph

My Notes:

How to Read Financial Reports

Disclaimer of Opinion



Basis for Disclaimer of Opinion

The introduction of a new computerized accounts receivable system in September 2020 resulted in numerous errors in accounts receivable. As of the date of our report, management was still in the process of rectifying the system deficiencies and correcting the errors. We were unable to confirm or verify by alternative means accounts receivable included in the statement of financial position at a total amount of \$1,000,000 with accounting principles generally accepted in the United States of America.

Disclaimer of Opinion

Because of the significance of the matter described in the Basis for Disclaimer of Opinion Paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion. Accordingly, we do not express an opinion on the financial statements.

Key Points:

Here is an example of a disclaimer of opinion paragraph

My Notes:

How to Read Financial Reports

Emphasis-of-Matter Paragraph

Draws attention to a matter or matters presented or disclosed in the financial statements that are of such importance that they are fundamental to understanding of the financial statements

Key Points:

About the matters already disclosed in the financial statements

See handout for more reference.

My Notes:

How to Read Financial Reports

Other-Matter Paragraph

Draws attention to any matters other than those presented or disclosed in the financial statements that are relevant to understanding of the audit, the auditor's responsibilities, or the auditor's report

Key Points:

About the matters already disclosed in the financial statements

See handout for more reference.

My Notes:

How to Read Financial Reports

Management Discussion & Analysis (MD&A)

- States important comparisons and other information from gaming operation management
- Provides management's insights into the information presented in the financial statements

Key Points:

About the matters already disclosed in the financial statements

See handout for more reference.

My Notes:

How to Read Financial Reports

Financial Statements



Statements of Net Position

Statements of Revenues, Expenses, and Changes in Net Position

Statements of Cash Flows

Key Points:

The main component of the Financial Report are the financial statements. Financial statements are typically prepared by accounting management (CFO, Director of Finance, Manager) and compiled, reviewed, or audited by the CPA. In limited cases, the CPA may prepare the financial statements, however, this will create independence issues which the CPA will note in the Financial Report and/or Management Letter.

My Notes:

How to Read Financial Reports

Statements of Net Position



- Snapshot at moment in time, at year end
- Reports the operation's assets, liabilities, and net position
- Formula for Statements of Net Position
 - $\text{Assets} = \text{Liabilities} + \text{Net Position}$

Key Points

Provides information about the operation(s)'s assets (what it has), liabilities (what it owes), and net position (what is left over).

My Notes:

How to Read Financial Reports

Statements of Net Position



- Current Assets
- Long-term Assets
- Current Liabilities
- Long-term Liabilities
- Net Position



Key Points

The Statements of Net Position are made of four or five main parts., depending on whether the operation has any long-term obligations.

My Notes:

How to Read Financial Reports

Current Ratio



What it tells us

- Liquidity of operation(s)
- Capability of operation to pay current obligations

How is it calculated

Total Current Assets ÷
Total Current
Liabilities

$$32,490,827 \div 27,769,730 = 1.17$$

Key Points:

The current ratio shows us whether the operation has enough current funding to meet current obligations. The ratio is calculated by dividing total current assets by total current liabilities.

- 1.00 and above: The operation has current funding to meet current obligations
- Below 1.00: The operation may not have adequate funding to meet current obligations

My Notes:

How to Read Financial Reports

Debt to Equity Ratio



What it tells us

- Evaluates the operation(s) leverage
- Reflects the ability of equity to cover all outstanding debts

How is it calculated

Total Liabilities ÷ Total Net Position (equity)

$$192,470,152 \div 4,219,434 = 45.62$$

Key Points:

The debt to equity ratio generally shows how much of an operation's funding is financed through debt and is used to evaluate the operation as a credit risk.

- Optimal ratio varies by industry
- Generally a favorable ratio is below 2.0
- Not an effective tool if the operation(s) has a negative equity position

My Notes:

How to Read Financial Reports

Statements of Revenues, Expenses, and Changes in Net Position



- Summarizes results of operation during the fiscal year and provides useful information for business decisions
- Helps leadership decide if the company is performing well enough for expansion, relocation, etc.

Key Points:

- Summary of transactions for one period, usually 12 months
- Tells a user how profitable an operation is

My Notes:

How to Read Financial Reports

Statements of Revenues, Expenses, and Changes in Net Position



$$\begin{aligned} &\text{Operating Revenues - Operating Expenses} \\ &= \text{Operating Income} \\ &+ \text{Non-operating Revenues (Expenses)} \\ &= \text{Income (Loss) Before Transfers} \end{aligned}$$

Key Points:

- The income statement consists of revenues and expenses along with the over a period of time
- Revenue consists of cash inflows and expenses consist of cash outflows or other using-up of assets or incurring of liabilities
- The non-operating section includes revenues and gains from non-primary business activities, items that are either unusual or infrequent
- Net income is calculated after adding non-operating revenues to operating income.

My Notes:

How to Read Financial Reports

Return on Assets



What it tells us

- Evaluates efficiency or profitability
- Shows how profitable relative to total assets

How is it calculated

Income before transfers
(net income) ÷ Total
Assets

$$7,264,454 \div 196,689,586 \\ = 3.69\%$$

Key Points:

Return on assets is an indicator of how profitable an operation is relative to its total assets.

- The higher the percentage the better
- Does not take the operation's debt into account
- Most useful for comparing operation between different account periods

My Notes:

How to Read Financial Reports

Profit Margin



What it tells us

- Gauges the degree business activity makes money
- Shows how much of revenue has turned into profits

How is it calculated

$$\begin{aligned} &\text{Income before transfers} \\ &\div \text{Total (net) revenues} \\ &7,264,454 \div \\ &131,120,827 = 5.54\% \end{aligned}$$

Key Points:

Profit margin is used to gauge the degree to which an operation makes money.

- Represents what percentage of revenues has turned into profits
- How many cents of profit has been generated for each dollar of revenue
- An indicator of an operation's financial health, management's skill, and potential for growth

My Notes:

How to Read Financial Reports

Operating Expense – Revenue Ratio



What it tells us

- Shows the cost to operate the business activity compared to the total revenues brought in by the operation

How is it calculated

$$\begin{aligned} & \text{Total operating expenses} \\ & \div \text{Total (net) revenues} \\ & 109,224,650 \div \\ & 131,120,827 = 83.30\% \end{aligned}$$

Key Points:

Analytical comparisons between financial data can provide further evaluations of performance. A common example is comparing total operating expense to total revenues

- Lower operating expense ratio is more desirable as it shows management is controlling the costs of the operation
- How many cents of expenses were incurred for each dollar of revenue

My Notes:

How to Read Financial Reports

Statements of Cash Flows



- Shows actual cash coming into and out of operations
- Presents the sources and uses of cash
- Reconciliation of operating income to net cash provided by operating activities

Key Points:

- Tells how much cash is coming into or out of a business
- Must reconcile to net income to the statement of revenues

My Notes:

How to Read Financial Reports

Statement of Cash Flows



- Operating
- Noncapital financing
- Capital Financing



Key Points:

- There are 4 main sections found in the statement of cash flows
 - Positive cash flow does not necessarily translate to profit, so must use in conjunction with the other statements

My Notes:

How to Read Financial Reports

Notes to Financial Statements



- Provide additional details related to the audited financial statements
- Include disclosures for additional consideration in reviewing the financial statements
- Includes vital information for 3rd parties not disclosed in other parts of the audited reports

Key Points:

The Notes to the Financial Statements provide important details about the information in the Financial Statements

- May clarify data that looks abnormal or varies significantly between accounting periods
- Provides details and key data used to prepare the financial statements
- Includes additional information which may be used to evaluate the performance of the operation
- May provide detail regarding future events likely to occur for the operation

My Notes:

How to Read Financial Reports

Notes to Financial Statements



- Organization / Nature of Business / Reporting Entity
 - Provides background information about the operation(s)
- Casino Regulation / Gaming Regulation
 - Summarizes regulatory authority for the operation's gaming activity

Key Points:

Organization - Provides background and history of the operation, may include:

- Location, physical size of the facilities, and gaming activity offered
- Other types of amenities offered, such as: hotel, food and beverage, entertainment, and / or resort facilities
- Construction or expansion development planned or in progress
- The amount of detail provided for this note varies by CPA

Casino Regulation - Provides information regarding regulatory structure for the operation's gaming activity, may include details of:

- Tribal-State Compact
- Tribe's establishment of a Gaming Commission, Agency, TGRA, etc
- Regulation by the National Indian Gaming Commission
- Authority of Federal and State regulators, as applicable

My Notes:

How to Read Financial Reports

Notes to Financial Statements



- Significant Accounting Policies
 - Provides information regarding accounting policies and standards applicable to the audit of the financial statements
- Property and Equipment or Capital Assets
 - States property and equipment or capital assets activity and related depreciation expense for the accounting period

Key Points:

Significant Accounting Policies - Provides information regarding the presentation and standards used, may include:

- Ownership of operation, Development Authority, and/or Enterprise and as a governmental unit
- Basis of accounting for presented statements, preparation in accordance with GAAP, and application of GASB standards
- Significant accounting policies used in the preparation of financial statement
- New Accounting Pronouncements

Property & Equipment - Includes tables, for each fiscal year of the financial statements, with the beginning balances, increases, decreases, and ending balances for property and equipment (capital assets) and accumulated depreciation expense. May include a summary of any special considerations related to P&E such as assets not capitalized (which normally would), recognition of gains and losses on sale of P&E, and losses on disposal of P&E.

My Notes:

How to Read Financial Reports

Notes to Financial Statements



- **Accrued Expenses and Liabilities**
 - Lists accrued expenses and liabilities with related balances at the end of the fiscal period
- **Long-Term Debt**
 - Summarizes details of the operation's long-term financing, including: Lines of Credit, Term Loans, and/or Bonds

Key Points:

Accrued Expenses and Liabilities - A table is presented, for this note, which lists the operation's accrued expenses and liabilities and their balances for the fiscal period ending of the financial statements and the total of the accrued expenses and liabilities.

Long-Term Debt – Includes extensive details regarding the operation's long-term debt structure, may include:

- The parties, amount and date in which debt agreements were entered
- Amendments entered into on existing debt, including the reason(s) for the amendment(s)
- Financial (debt) covenants the operation is required to meet and level of compliance with the covenants
- Table estimating debt service requirements including principal and interest balances
- Detail regarding any incidents of default on long-term debt agreements

My Notes:

How to Read Financial Reports

Notes to Financial Statements



- Gaming Compact and Related Fees
 - Provides information related to the Tribal-State compact permitting Class III gaming activity and fees
- Participation Fees and Gaming Revenue
 - Summarizes gaming revenues by gaming area and agreements for participation fees with vendors

Key Points:

Gaming Compact and Related Fees- Provides information related to Tribal-State gaming compact (if applicable) that applies to the operation(s), may include

- When original compact was signed and any amendments and/or renewals
- Certain terms of the compact including the type of gaming permitted, any limits, and length of current compact
- How payments made to the State, special purpose funds, and/or local government entities are calculated
- How much was paid during the fiscal periods related to the financial statements

Participation Fees and Gaming Revenue – Summary of gaming revenue by gaming areas offered by the operation and payments and agreements with 3rd party vendors for leases and/or participation fees of gaming equipment used at the operation, may include:

- The total amounts paid to vendors for leases and/or participation fees
- The amount for the operation's contribution for wide-area progressives
- A table is presented which lists revenue for each type of gaming activity offered at the operation

My Notes:

How to Read Financial Reports

Notes to Financial Statements



Other Notes to the Financial Statements

- Interfund or Related Party Transactions
- Employee Benefit Plan
- Commitments and Contingencies
- Risk Management
- Business Interruption
- Subsequent Events
- Reclassification / Restatement of Prior Year Financials



Key Points:

Other Notes to Financial Statements – CPAs provide a lengthy number of Notes to the Financial Statements. The remaining Notes to the Financial Statements may include:

Gaming Compact and Related Fees- Provides information related to Tribal-State gaming compact (if applicable) that applies to the operation(s), may include

- Interfund or Related Party Transactions – Includes details of payments made by the operation to the Tribe and related parties
- Employee Benefit Plan – Provides details about benefit programs offered by the operation to their employees
- Commitments and Contingencies – States information related to contracts entered into by the operation, such as: construction contracts, and potential legal claims and litigation
- Risk Management – Provides details if the operation has implemented any self-insurance programs
- Business Interruption – States information regarding any incidents which had a significant impact to interrupting the normal business of the operation during the financial period or that continues to have an effect on the financial period
- Subsequent Events – Any significant information that could effect future financial performance which took place after the reported accounting period, but prior to the issuance of the audited financial statements
- Reclassification or Restatement of Prior Year Financial Statements – Discloses the restatement or reclassification of account balances for the financial statements issued for the prior year

My Notes:

How to Read Financial Reports

Management Letter

- Material Weaknesses
- Significant Weaknesses
- Recommendations to Strengthen Internal Controls



Key Points

Management Letters from the CPA for the audit of the financial statements include:

- AU Section 380 (SAS 114) Communication With Those Charged with Governance
- AU Section 325 (SAS 115) Communication of Internal Control Related Matters

My Notes:

How to Read Financial Reports

NIGC Requirements for Financial Statements (25 CFR 571.12)



Annual submission of financial statements

- Separate financial statements per operation; or
- Consolidate/combine multiple operations on one report
 - Requires separate schedules for each operation

Key Points:

- **Each operation** shall prepare comparative financial statements covering all financial activities of each class II and class III gaming operation on the tribe's Indian lands for each fiscal year.
- Financial statements must be audited unless the financial statements qualify for a review
- Must have a separate schedule for each operation if combined or consolidated

My Notes:

How to Read Financial Reports

Questions



Key Points:

Thank you for attending “How to read financial reports”.

If you have any questions or comments please send them to TRAININGINFO@nigc.gov

My Notes:

Unqualified Opinion Example

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Casino as of September 30, 2020 and 2019, and the changes in its financial position and cash flows thereof for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Qualified Opinion Example

Basis for Qualified Opinion

Detailed accounts payable, costs of goods sold and transfers records have not been maintained, reconciled and supporting data were not available for our audit. Therefore, we were not able to obtain sufficient appropriate evidence about the amounts at which accounts payable, cost of goods sold and transfers are recorded in the accompanying statements of net position at December 31, 2019 (stated at \$1,421,985) and statements of revenues, expenses and changes in net position for the year then ended (stated at \$17,743,785 and \$2,335,401, respectively).

Qualified Opinion on 2019 and Unmodified Opinion on 2018

In our opinion, except for the effects of the matter described in the Basis of Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Casino LLC as of December 31, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States.

Adverse Opinion Example

Basis for Adverse Opinion on Accounting Principles Generally Accepted In the United States of America Issued By Governmental Accounting Standards Board (GASB)

As described in Note 4 to the financial statements, the Casino is a government entity as defined by the GASB. Accordingly, accounting principles generally accepted in the United States of America issued by the GASB are the appropriate accounting principles for the Casino to follow. However, the Revolving Credit and Term Loan Agreement requires the Casino to report under

accounting principles generally accepted in the United States of America issued by the Financial Accounting Standards Board (FASB) even though the entity meets the “governmental” criteria.

The effects on the financial statements of the variances between accounting principles generally accepted in the United States of America issued by the FASB as described in Note 2 to the financial statements and accounting principles generally accepted in the United States of America issued by the GASB have not been determined.

Adverse Opinion on Accounting Principles Generally Accepted in the United States of America Issued by the GASB

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on Accounting Principles Generally Accepted in the United States of America issued by the GASB, the financial statements referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America issued by the GASB, the financial position of the Casino as of December 31, 2019 and 2018, or its changes in financial position or its cash flows for the years then ended.

Disclaimer of Opinion Example

Basis for Disclaimer of Opinion on the 2020 and 2019 Results of Operations and Cash Flows

Certain accounting records were not maintained by the Casino and were not available for audit. We also noted pervasive deficiencies in internal control over the income statement accounts.

Disclaimer of Opinion on the 2020 and 2019 Results of Operations and Cash Flows

Because of the significance of the matter discussed in the Basis for Disclaimer of Opinion on the 2020 and 2019 Results of Operations and Cash Flows paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on the statements of revenues, expenses, and changes in net position and cash flows for the years ended September 30, 2020 and 2019. Accordingly, we do not express an opinion on the results of operations and cash flows for the years ended September 30, 2020 and 2019.

“Review” Example

Accountant’s Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying 2020 financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Example of Explanatory Paragraph

Emphasis of Matters

As discussed in Note 13 to the financial statements, the Enterprise temporarily ceased operations of the Casino effective March 15, 2020 due to the COVID-19 pandemic. Management’s evaluation of the events and conditions and management’s plans to mitigate these matters is also discussed in Note 13 including receiving a letter of support from the Tribe.

Our opinion is not modified with respect to this matter.

As discussed in Note 1, the accompanying financial statements present the financial position, results of operations and cash flows only of the Mill Creek Development Authority and are not intended to present the financial position, changes in financial position and cash flows of the Tribe. Our opinion is not modified in respect of this matter.

Example of Other Matters Paragraph - MD&A Omission

Other Matter

Management has omitted the management’s discussion and analysis information for the years ended December 31, 2020 and 2019 that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in the appropriate operational, economic, or historical context. Our opinion on the basic financial statements are not affected by this missing information.

MILL CREEK DEVELOPMENT AUTHORITY
dba MILL CREEK RESORT AND CASINO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

AS OF AND FOR FISCAL YEARS ENDED DECEMBER 31, 2020 AND 2019

Our discussion and analysis of the financial performance of Mill Creek Development Authority dba Mill Creek Resort and Casino (the "Authority" or "Resort") provides an overview of the Authority's financial activities for the fiscal years ended December 31, 2020 and 2019.

Forward-Looking Statements

This discussion may be deemed to contain forward-looking statements about our operations and business environment including, but not limited to, our future material commitments, market risk, future events and our future performance, all of which are based on our current expectations, estimates and projections. We caution you that such statements reflect our best judgment, based on factors currently known to us, and that actual outcomes and events could differ materially. We assume no obligation to update any forward-looking statements contained in this report.

Overview of the Financial Statements

The Authority is a separate instrumentality of the "Tribe". These financial statements reflect the financial position and activity of the Authority only and do not purport to represent the financial position and activity of the Tribe. The financial statements also include notes that explain in more detail the specific information presented in the financial statements.

The annual report consists of two parts-Management's Discussion and Analysis and the basic financial statements. The financial statements consist of the statements of net position; the statements of revenues, expenses, and changes in net position; and the statements of cash flows.

The statements of net position show the Authority's assets and liabilities and net position. The statements of revenues, expenses, and changes in net position show the various sources of revenue and categorize expenses by type. The statements of cash flows show cash receipts and disbursements by category.

For the year ended December 31, 2020, the Authority changed its financial reporting framework from accounting principles generally accepted in the United States of America issued by the Financial Accounting Standards Board (FASB) to accounting principles generally accepted in the United States of America issued by the Governmental Accounting Standards Board (GASB). Accordingly, the financial information included within our discussion and analysis and the accompanying financial statements have been prepared in accordance with GASB for all periods presented.

Overview of the Business

The Authority was formed to operate the Tribe's resort and casino business. Under the Tribe's ordinance establishing us as a Tribal instrumentality, the Tribe has vested in us the power and authority to operate the Tribe's resort and casino business and to acquire, own and dispose of any property of our business, including the right to use and occupy the real property of the Tribe on which our business is located. Our full-scale resort is located on the Tribe's reservation and adjacent land in Etna, California, located in the Siskiyou Valley approximately 30 miles southeast of Klamath National Forest.

Note: This example is for training purposes only and is based on a fictitious entity

MILL CREEK DEVELOPMENT AUTHORITY
dba MILL CREEK RESORT AND CASINO

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS

AS OF AND FOR FISCAL YEARS ENDED DECEMBER 31, 2020 AND 2019

Casino operations on tribal lands are authorized by and subject to (i) the Indian Gaming Regulatory Act ("IGRA"); (ii) the compacts between the Tribe and the State of California; and (iii) the Tribe's tribal gaming commission ordinance and related resolutions.

We provide gaming in the form of table games, slot machines, bingo, and card games. The Authority operates associated facilities including a hotel, food and beverage outlets, entertainment venues, bowling center, and golf course. The Authority's gaming operations are conducted in accordance with tribal gaming compacts entered into with the State of California and are regulated by the National Indian Gaming Commission.

The gaming industry, and our primary market in particular, is very competitive. We face competition from four tribal casinos in the Siskiyou Valley, ten tribal casinos in Southern Oregon and Northern California, and numerous casinos in Reno, Nevada and the surrounding area. Our ability to compete successfully is critical to the success of our resort and casino business.

Primary Sources of Revenue

We have five primary sources of revenue, they are:

Casino - As of December 31, 2020, the casino's gaming operations were comprised of 1,300 Class III slot machines, 18 table games, a bingo hall, and four card games tables. All casino operations are situated on our approximately 70,000 square foot casino floor. The casino is open 24 hours a day, seven days a week.

Food and Beverage - The food and beverage operations include a 180-seat buffet restaurant, a 100-seat Pacific Northwest style seafood restaurant, a 90-seat fine dining steakhouse, a 150-seat including outdoor dining bar and grill, a Peet's Coffee, three quick-serve food outlets, room service, and a full banquet facility. The resort also has multiple full service bars and portable bars.

Hotel and Resort - Our hotel is a 8-story, 170 room facility with a resort swimming pool and fitness center, all of which are integrated with our casino, convention and dining facilities.

Entertainment - Our entertainment operations include a 2,836-seat indoor special events center; a 1,250-seat outdoor entertainment venue; and Creekside, a lounge offering live music with a nightclub type atmosphere. Our facilities offer major headline entertainment events and live bands, attracting a broad customer base to our casino and other amenities.

Other - Our facilities include 12 bowling lanes with an arcade and Echo Creek, our 18-hole championship caliber golf course. In addition, the resort has four retail stores: a luxury retail outlet, a gift shop, a smoke shop, and pro shop at the Echo Creek Golf Course.

Highlights to Financial Results

On March 17, 2020, the Tribe declared an emergency and initiated a temporary closure of the Resort for the health and safety of its patrons and employees, and furthermore to facilitate limiting the spread of the novel coronavirus disease, known as COVID-19. This temporary closure negatively impacted the financial results of this fiscal year with an approximate \$12 million reduction of Earnings before interest, depreciation and amortization (EBITDA). In addition to revenue generation being negatively impacted, certain expenses continued during closure, including payroll and related benefits expense for

Note: This example is for training purposes only and is based on a fictitious entity

MILL CREEK DEVELOPMENT AUTHORITY
dba MILL CREEK RESORT AND CASINO
NOTES TO FINANCIAL STATEMENTS
FISCAL YEARS ENDED DECEMBER 31, 2020 AND 2019

1. Organization

The Mill Creek Development Authority (the “Enterprise”) is an economic development business (an enterprise fund) of the _____, a federally recognized Indian tribe (the “Tribe”). The Authority was established by the Tribe during 2016 for the purpose of operating the Mill Creek Resort and Casino (the “Casino”). As of December 31, 2020 and for all periods presented in these financial statements, the Casino is the sole operating entity of the Development Authority.

The Development Authority’s current gaming facility is identified under the Authority’s name Mill Creek Resort and Casino which operates in the Northern California area. The Casino includes gaming activities of slot machines, table games, bingo and card games, as well as food and beverage, hotel and resort, entertainment and other amenities. The Casino gaming space operates approximately 70,000 square feet, with approximately 1,300 slot machines, 18 table games, a 500 seat bingo hall, and four card games tables.

2. Casino Regulation

In accordance with the Indian Gaming Regulatory Act (“IGRA”), the Tribe signed a Tribal-State Compact with the State of California on April 10, 2015. As more fully described in Note 6 the Compact was approved by the Bureau of Indian Affairs on April 28, 2015, with most of the provisions becoming effective in May 2015.

The Tribe created the Mill Creek Gaming Commission (“Gaming Commission”) and authorized it as the regulatory agency responsible for the licensing of the Authority and the on-site regulation of the gaming operations. The Gaming Commission has promulgated regulations that govern the gaming operations.

In addition, the Authority is subject to regulation by the National Indian Gaming Commission (the “NIGC”) and the State of California. The NIGC is authorized to conduct investigations; undertake enforcement actions, including the assessment of fines and the issuance of closure orders; conduct background investigations; conduct audits; review and approve tribal gaming ordinances and management contracts; and issue such regulations as are necessary to meet its responsibilities under the IGRA. The State of California’s gaming agency is authorized to investigate, approve, and regulate gaming licenses pursuant to the Gambling Control Act. If requested by the Gaming Commission, the State of California’s gaming agency shall assist in any investigation initiated by the Gaming Commission and provide other requested services to ensure proper compliance with the provisions of the Tribal-State Compact. Additionally, the State of California’s gaming agency has the right to inspect the Enterprise’s gaming facilities with respect to Class III gaming activities, and all gaming operation or facility records relating thereto.

3. Summary of Significant Accounting Policies

Basis of Presentation

The Authority is not a legal entity, but an economic development project and enterprise fund of the Tribe, owned and operated by the Tribe and part of the Tribal Government.

Note: This example is for training purposes only and is based on a fictitious entity

MILL CREEK DEVELOPMENT AUTHORITY
dba MILL CREEK RESORT AND CASINO

NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED DECEMBER 31, 2020 AND 2019

Because Mill Creek Development Authority is an enterprise of the Tribe, a federally recognized Indian Tribe possessing all sovereign powers and rights pertaining thereto, the Authority's financial statements have been presented as an enterprise fund of a governmental unit, using the accrual basis of accounting. The financial statements present only the Authority and are, therefore, not intended to present the financial position, changes in financial position and cash flows of the Tribe.

The financial statements of the Authority have been prepared in conformity with generally accepted accounting principles, as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board ("GASB") is the standard-setting body for accounting and financial reporting by governments, including tribal governments.

A summary of the significant accounting policies used in the preparation of these financial statements follows:

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents and Credit Risk

Cash and cash equivalents include cash on hand and highly liquid temporary investments, such as money market mutual funds, with original maturity dates of three months or less. Temporary investments are carried at cost, which approximates market value.

Custodial credit risk is the risk that in the event of a bank failure, the Casino's deposits in financial institutions may not be returned. The Casino has no policy in regards to custodial credit risk. The carrying amount of the deposits in financial institutions at December 31, 2020 was \$2.7 million. As of December 31, 2020, \$0.3 million of the Casino's deposits were covered by FDIC insurance. The remaining balance of \$2.4 million was uninsured and uncollateralized.

Accounts Receivable

Accounts receivable consist of markers, commissions, reimbursements from funding automatic teller machines, cash vouchers, interest income and other miscellaneous receivables.

Inventories

Inventories consist of food, beverage, golf equipment, and other merchandise held for sale or subject to players' club member redemption. Inventories are stated at the lower of cost or market, using the first-in, first-out method.

Property and Equipment and Depreciation

Property and equipment are stated at cost. Costs of major improvements that extend the useful lives of property and equipment are capitalized, while costs of normal repairs and maintenance are charged to expense as incurred. Upon retirement or disposal of assets, the cost and accumulated depreciation are eliminated from the accounts and the resulting gain or loss is included in income. Depreciation is computed using the straight-line method over the estimated useful life of the asset or the term of the capitalized lease, whichever is less.

Note: This example is for training purposes only and is based on a fictitious entity

MILL CREEK DEVELOPMENT AUTHORITY
dba MILL CREEK RESORT AND CASINO

NOTES TO FINANCIAL STATEMENTS

FISCAL YEARS ENDED DECEMBER 31, 2020 AND 2019

Buildings and improvements	10-30 years
Furniture, fixtures and equipment	3-20 years
Vehicles	5 years

Progressive Jackpot, Players' Pool and Club Liabilities

The Enterprise offers progressive jackpots for slot machines and table games. The progressive jackpot payouts increase with the amount of play until the appropriate jackpot is hit. The Enterprise has recorded a progressive jackpot liability with a corresponding charge against gaming revenue. The Enterprise accrues the incremental portion of the progressive jackpot over the base amount. The Enterprise also maintained a poker jackpot liability, which was created from player contributions to a jackpot fund prior to the closure of the poker room in 2019. The fund decreases when a player achieves a qualifying hand to win the jackpot.

The Enterprise has established a promotional players' club to encourage repeat business from frequent and active slot machine and table game patrons. Slot players earn points based on gaming activity and such points can be redeemed for free play on slot machines or redeemed for merchandise or food vouchers. The Enterprise accrues for the estimated cost of points expected to be redeemed as extra credit, as a reduction to gaming revenue and accrues for the estimated cost of points expected to be redeemed as merchandise or food vouchers, as a promotional expense charged to casino expense. Management determines the adequacy of this accrual by periodically evaluating the historical redemption experience and projected trends related to this accrual.

In addition, the Enterprise has a complimentary rewards program allowing members to redeem complimentary rewards at their discretion. The Enterprise accrues an expense for the estimated cost associated with providing these incentives as they are earned using estimates regarding expected redemptions and the cost of the benefit.

Casino Revenue

Casino revenue is net win from gaming activities, which is the difference between gaming wins and losses. Additionally, casino net win is reduced by a provision for anticipated payouts for progressive jackpots and certain participation fees.

Food and Beverage and Other Revenues

Revenues from food and beverage, hotel, entertainment events and other activities are recognized at the time the services are provided. The approximate retail value of food and beverage, hotel rooms, entertainment, and other goods and services provided to customers on a complimentary basis are deducted from gross revenues as promotional allowances.

Promotional Allowances

The retail value of food, beverage, and other services furnished to customers on a complimentary basis is included in gross revenue and then deducted as promotional allowances. The cost of providing such complimentary services is charged to departmental operating expenses.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were \$5.5 million and \$7.4 million,

Note: This example is for training purposes only and is based on a fictitious entity

Communication to Those Charged with Governance:

Other Required Communications

Significant changes to planned audit strategies or significant risks initially identified	There were no significant changes to the planned audit strategies or significant risks initially identified and previously communicated to Tribal Council in our engagement letter.
Obtain information from those charged with governance relevant to the audits	There were no matters noted relevant to the audit, including, but not limited to: violations or possible violations of laws or regulations; risk of material misstatements, including fraud risks; or tips or complaints regarding the Casino's financial reporting that we were made aware of as a result of our inquiries of Tribal Council.
Nature and extent of specialized skills or knowledge needed related to significant risks	There were no specialized skills or knowledge needed, outside of the core engagement teams, to perform the planned audit procedures or evaluate audit results related to significant risks.
Consultations with other accountants	We are not aware of any consultations about accounting or auditing matters between management and other independent public accountants. Nor are we aware of opinions obtained by management from other independent public accountants on the application of generally accepted accounting principles.
Disagreements with management	There were no disagreements with management about matters, whether or not satisfactorily resolved, that individually or in aggregate could be significant to the Casino's financial statements or to our auditor's report.
Significant difficulties encountered during the audits	There were no significant difficulties encountered during the audit.
Other matters significant to the oversight of the Casino's financial reporting process, including complaints or concerns regarding accounting or auditing matters	There are no other matters that we consider significant to the oversight of the Casino's financial reporting process that have not been previously communicated.
Representations requested from management	Please refer to the management representation letter.

Internal Control Communication

Tribal Council

Mill Creek Development Authority
Etna, California

In planning and performing our audit of the financial statements of Mill Creek Development Authority (the "Casino") as of and for the year ended December 31, 2020, in accordance with auditing standards generally accepted in the United States of America, we considered the Casino's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Casinos' internal control. Accordingly, we do not express an opinion on the effectiveness of Mill Creek Development Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified a deficiency in internal control that we consider to be a material weakness and a deficiency that we consider to be a significant deficiency.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

We consider the deficiency listed on page 2 as item 20-1 to be a material weakness in internal control.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We consider the deficiency listed on page 2 as item 20-2 to be a significant deficiency in internal control.

This communication is intended solely for the information and use of _____, Mill Creek Gaming Commission, Mill Creek Development Authority management, the National Indian Gaming Commission, and the State of California, and is not intended to be and should not be used by anyone other than these specified parties.

ABC LLP

San Francisco, California
March 21, 2021

20-1 Prior Period Adjustment

Criteria or Specific Requirement: The Casino is required to establish and maintain internal controls, that operate effectively throughout a period, to provide reasonable assurance regarding the reliability of the Casino's financial statements.

Condition: An internal control for the timely communication of information was not properly designed or implemented to ensure asset impairment is recognized when assets incur material damage resulting in a restatement of prior period financial statements.

Context: We inquired with management and reviewed supporting documentation to justify the restatement.

Effect: The prior year's financial statements were misstated.

Cause: The natural disaster event and asset impairment was not properly disclosed in the financial statements in accordance with Generally Accepted Accounting Principles (GAAP).

Auditor's Recommendations: We recommend management communicate any disasters or events in a timely manner and also periodically assess assets for impairment whenever an insurance claim is submitted.

20-2 Policies and Procedures-Employee Advances and Loans

Criteria or Specific Requirement: The Casino should develop accounting policies and procedures to cover the internal controls over Employee Advances and Loans.

Condition: The Casino did not have policies and procedure for Employee Advances and Loans in place during the audit period.

Context: We had a discussion with management on its policies and procedures manual.

Effect: Without policies and procedures for Employee Advances and Loans, the Casino is vulnerable to fraud and mismanagement.

Cause: The Casinos have not developed policies and procedures for Employee Advances and Loans.

Auditor's Recommendations: The Casinos should develop policies and procedures for Employee Advances and Loans and submit to the Gaming Commission

Formulas and Ratios

Statements of Net Position:

Assets = Liabilities + Net Position

Current Ratio:

Total Current Assets ÷ Total Current Liabilities

Debt to Equity Ratio:

Total Liabilities ÷ Total Net Position (equity)

Statements of Revenues, Expenses, and Changes in Net Position:

Operating Revenues - Operating Expenses = Operating Income + Non-operating Revenues (Expenses) = Income (Loss) Before Transfers

Return on Assets:

Income before transfers (net income) ÷ Total Assets

Profit Margin:

Income before transfers ÷ Total (net) revenues

Operating Expense – Revenue Ratio:

Total operating expenses ÷ Total (net) revenues