

Secretary/Treasurer Arthur “Archie” LaRose
Quarterly Report April 3, 2015

Accounting Summary:

4-03-2015

The Annual Audit Report for fiscal year 2014 is complete and submitted to the Federal government by the deadline of March 31, 2015. The audit was conducted by McGladrey, Inc. and we will be reviewing the financial statements and findings at the next *Financial Advisory Committee* meeting. We will also schedule a meeting with the auditors and the RBC to review the audit report and the audit findings.

Fiscal year 2015 is coming to a close with a projected budget deficit of \$1.5 million for the Band's General Fund. This projected deficit combined with fiscal year 2014 deficit of \$2.2 million would require utilizing General Fund cash reserves. We have implemented budget monitoring measures and will continue in order to bring the over-spending under control. The Fiscal Year 2016 Budgeting process is still underway and the deficits of fiscal year 2014 and 2015 will have a negative effect on that process.

Grants Budgets – The Band receives grants from the Federal, State, and other local funding agencies. These budgets average about \$40 million per year but Federal budget allocations have experienced reductions that have trickled down to our level to an estimated \$38 million for fiscal year 2015.

Program Fees – the Band's various health and human services divisions generate an average of \$20 million per year in billing revenue. This revenue source is dependent upon billing for services provided by the various programs within these divisions. The council had previously announced an initiative to consolidate these billing activities in order to maximize revenue from these sources. This project is in continuous development as we continue to experience many lost opportunities to capture this much needed revenue that otherwise could be utilized to provide additional services to the Band's citizens.

Minor Trust Fund – We have paid out \$66,350 in payments to over 250 Leech Lake Band members turning 18 years of age for this fiscal year. These payments are for contributions made for years 2012, 2013, and 2014.

2015 Budget

This report gives basic information on the financial state of the band. Remember the band's finances change as we move through the year and there are also issues that impact our finances. The Band's 2015 fiscal year budget is comprised of the following revenues and expenditures. General Fund currently has approximately \$8.6 million in cash reserves, this fund fluctuates going both up and down over the course of the year, this quarter the balance is \$10.5 million. These funds are comprised of previous lawsuit settlements and prior year additional sales tax revenues. These are funds held in reserve for future allocation as deemed necessary. This includes emergencies, grant cash matches, and capital projects that require additional funding.

Annual Revenues for fiscal year 2015:

- The Gaming allocation or funds to be transferred to the Governing body for the 2015 fiscal year were \$13.5 million; this has been reduced by \$700 thousand to \$12.8 million.
- The State of MN Hunting and Fishing agreement projection is \$2.8 million.
- The State of MN Tax agreement is also projected at \$3.5 million. This includes sales, gasoline, alcohol, and tobacco taxes.
- The Band receives approximately \$40 million in Federal, State, and other grants.

- Other income, which includes land leases, health and human services billings, TERO fees, and other miscellaneous billings revenues total \$31.9 million.

Total projected revenues for fiscal year 2015 total \$101.7 million.

Projected expenditures for fiscal year 2015 include:

- The Band pays \$48 million in salaries, wages, and fringe benefits for over 900 full, part-time and temporary employees.
- Other operating costs total \$18.7 million. (Supplies, telephone, meeting, travel, equipment, insurance and repairs)
- Capital Improvements and contractual total \$36 million that includes the Roads programs and building projects for Opiate, Assisted Living Center, Hospital expansion, and Justice Center programs.

Total projected expenditures for fiscal year 2015 equal \$102.4 million.

Gaming Summary:

Last quarter Leech Lake Gaming reported net income was down by about 1 million dollars primarily due to the loss of the Native Brand Tobacco sales. We lost revenue on both the government and gaming sides due to the unresolved 1995 State Tax Agreement issue (Native Brand Tobacco sales). Due to this reduction in net gaming income, the gaming allocation has been reduced from \$13.5 to 12.8 million dollars for this 2015 fiscal year. These are the funds we transfer from gaming to the government side to help cover operations costs. The report below shows we have moved revenues back up and hopefully this trend will continue.

Summary of Gaming Operations for Quarter Ending March 31, 2015

Revenue

During the past year, there have been several negative pressures on Leech Lake Gaming revenue. With the much more mild winter, revenue has recovered to prior levels during this quarter. Revenues for January and February 2015 were up \$409,000 compared to Last Year. This increase in revenue is substantial as Gift Shop (Tobacco) Revenue was down over \$500,000 compared to Last Year when we were still selling Senecas. Primary revenue improvements include over \$800,000 for the two months in Slot Revenue which is the primary source of profitability to Leech Lake Gaming. March appears to follow a similar trend with increases compared to the prior year.

Expenses

Operating Expenses for Leech Lake Gaming were down over \$200,000 for January and February with similar results expected for March with a significant amount of the decrease directly related to decreased expenses such as increased heating, gasoline, and electrical costs. Payroll Expense showed little change (increased \$5,000) during the past quarter compared to the previous year, despite an increase in the minimum wage from \$9/Hour to \$10.25/Hour.

Net Income

Net Income increased primarily due to the increase in Gaming Revenue (Increase of \$800,000) and decrease in Operating Expenses (Decrease of \$200,000). While Gaming Revenue increased, there is still a large offset to those increases due to the loss of Native Brand Cigarette Sales. Leech Lake Gaming has begun to sell national brand tobacco at reduced prices to increase casino traffic and to positively affect the tax rebate from the State of Minnesota.

Forecast

Revenues began to recover in Quarter 2 of FY 2015 and that trend has continued with very strong Revenue numbers, combined with controlled operating expenses to substantially improve Net Income

in the 3RD Quarter compared to Last Year. With strong marketing plans in place, it is anticipated that Leech Lake Gaming should be able to sustain the current revenues through the coming fiscal year. With projected Revenue Growth and projected controlled Operating Expenses, Leech Lake Gaming is poised to finish FY 2015 with strong numbers. Based on continued economic growth projections and proposals to control additional spending, Leech Lake Gaming is projected to show slight revenue growth and modest increases in Net Income in the coming year.

Marijuana and Cigarette Issue

We are currently looking at the Marijuana industry especially medical. However this is seen as kind of a gold rush for Indian Country but the truth is that this is going to take time to develop. There is federal, state and industry regulatory issues that need to be addressed, there are going to be numerous development issues and any return on investment is not right away but sometime in the future. We will also have to deal with the state of MN and some of the same issues we have regarding our selling Native Brand Cigarettes. So I think the cigarette issue needs to be made a priority by this council.

Financial advisory committee I formed to help monitor both the financial state of the band and our financial systems. The goal was and is to identify and address issues before they become problems especially in regard to spending, spending patterns and revenue shortfalls. Also to help identify financial policy needs, improve asset management, correct audit findings, and identify areas for overall system improvements. I am pleased to report that the committee has been focused and a number of areas are being looked at more in-depth for improvement.

Band priorities The council met in mid-October 2014 to discuss band priorities and a follow up meeting December 29 where we discussed the need for an updated organization flowchart. The discussion continues in regard to both issues. The last program and service priorities were set in 1999 they were Social Problems, Land issues, Housing, Jobs, Education, and Capital Needs. I think these priorities are still relevant. We all know some of the areas that need attention are addictions, poverty, ICWA and Out of Home Placements, homelessness and affordable housing, economic development, job development and workforce training, youth development, and education.

We also had a meeting with Northwest Area Foundation, Initiative Foundation and Blandin on February 25 and 26, 2015. The areas identified by the reservation and the three foundations as priority(s) are.

1. Early childhood education
2. Economic development
3. Education/workforce development
4. Youth development/leadership
5. Capacity building

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Arthur "Archie" LaRose, Secretary/Treasurer