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CHEROKEE NATION®

Tahlequah, Oklahoma



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended September 30, 2013



COMPREHENSIVE ANNUAL FINANCIAL REPORT

Year Ending September 30, 2013

Prepared by
FINANCIAL RESOURCES DEPARTMENT



THE BUILDING OF A NATION - CHEROKEE NATION STRUCTURES



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Tahlequah, Oklahoma



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CHEROKEE NATION
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FOR THE YEAR ENDED SEPTEMBER 30, 2013

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SECTION

I

INTRODUCTION

2013
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT



W.W. KEELER COMPLEX

CHEROKEE NATION



TAHLEQUAH, OKLAHOMA



GWY.Ꭰ DᎠP
CHEROKEE NATION[®]
P.O. Box 943 • Tahlequah, OK 74465-0943 • 918-453-5000 • cherokee.org

Office of the Chief

Bill John Baker
Principal Chief
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S. Joe Crittenden
Deputy Principal Chief
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March 28, 2014

Principal Chief, Deputy Chief, Tribal Council and Citizens of the Cherokee Nation:

We, the Cherokee Nation Financial Resources Department (Financial Resources), are pleased to submit the Comprehensive Annual Financial Report of the Cherokee Nation (the Nation) for the fiscal year ended September 30, 2013. Accountability for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Nation. We believe the data presented is accurate in all material aspects, and fairly presents the financial position and results of operations for the year ended September 30, 2013.

A comprehensive analysis of the Nation's financial position and activities for the year is contained in this report. It has been prepared by Financial Resources and conforms to the "pyramid" approach to governmental financial reporting as prescribed in National Council on Governmental Accounting (NCGA) Statement 1, "Governmental Accounting and Financial Reporting Principles."

Management's discussion and analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview and analysis of the basic financial statements. The MD&A should be read in conjunction with this transmittal letter.

The Nation's basic financial statements were audited by BKD, LLP whose role serves to provide reasonable assurance that the financial statements are fairly stated in all material respects. See "Independent Auditor's Report on Financial Statements and Supplementary Information" included with the comprehensive report.

Organization of the Government

The Nation is the largest federally recognized government of the Cherokee people and is one of the largest federally recognized tribes in the United States. The Nation has sovereign status granted by treaty and law. The Nation is located within the 14 counties of northeastern Oklahoma with the boundary running northerly and southeasterly from Tulsa, Oklahoma to the Kansas and Arkansas state borders. The Nation's jurisdictional area—which consists of 9,234 square miles and includes all of nine counties and portions of five other counties—was established following the historical boundaries of the Cherokee Nation after the Treaty of 1866.

The Cherokee Constitution was amended by the Constitutional Convention in 1999 and ratified by a vote of the Cherokee citizens in 2003. This Constitution defines the distribution and separation of powers

among the three branches of government. The three branches and their respective powers include the following:

Executive Branch

The executive power of the Cherokee Nation is vested in the Principal Chief, currently Bill John Baker. The Deputy Chief, currently S. Joe Crittenden, aids and advises the Principal Chief in the administration of the government. The Principal Chief is responsible for the execution of the laws of the Cherokee Nation, establishment of tribal policy and delegation of authority, as is necessary for the administrative functions of the Cherokee Nation. The Principal Chief maintains an office at the W. W. Keeler Tribal Complex in Tahlequah (Cherokee County), Oklahoma. The Deputy Chief is empowered to act as directed by the Principal Chief.

The Executive Branch of the Nation is organized with the Principal Chief and the Deputy Principal Chief serving as the final authorities of the administrative operations of the Nation. The Constitution provides for a three member Cabinet: the Treasurer, the Secretary of State and the Secretary of Natural Resources. The Treasurer, currently Lacey A. Horn, provides oversight and direction for the Nation on all financial matters, including annual budgets, investment of funds, and financial reporting in conformance with Generally Accepted Accounting Principles (GAAP). The Secretary of State, currently Chuck Hoskin, Jr., is responsible for a variety of governmental functions including but not limited to the certification of petitions, referring amendments of the constitution to the people, and receipt of petitions, orders for initiatives, and oaths of office. The office of Secretary of State was held by Charles L. Head from January 17, 2012 until his passing on January 30, 2013. Chuck Hoskin, Jr. was nominated and confirmed as Secretary of State on August 30, 2013. The Secretary of Natural Resources, currently vacant, advises the Chief on natural resource issues and works to advance the Nation's top environmental strategic priorities.

The Constitution also created an office of Attorney General and an office of Marshal. The Attorney General and Marshal are appointed by the Principal Chief and confirmed by the Tribal Council for a term of five (5) years. The terms of the Attorney General and Marshal shall not be concurrent. The Attorney General, currently M. Todd Hembree, represents the Cherokee Nation in all criminal cases in the courts of the Nation, and in all civil actions wherein the Cherokee Nation is named as a party and shall have such other duties as prescribed by law. The Marshal, currently Shannon Buhl, provides law enforcement within the jurisdiction of the Cherokee Nation. The Marshal's duties and authority are prescribed by law.

The staff of the Principal Chief includes the Executive Directors of the respective departments who provide oversight and general direction. The major service departments of the Nation are the following: Career Services, Commerce Services, Community Services, Education Services, Health Services and Human Services. Resource departments provide support for the Nation's service departments, as follows: Financial Resources, Human Resources, Government Resources, Information Systems and Management Resources.

Legislative Branch

The Legislature consists of seventeen (17) Tribal Council members, who are citizens of the Cherokee Nation. The Tribal Council is elected to four-year terms from the fifteen districts of the Cherokee Nation and two at-large members who represent citizens living outside the jurisdictional area. The Council elects a Speaker, currently Tina Glory-Jordan, and a Deputy Speaker, currently Janelle Fullbright, effective August 30, 2013. The Deputy Speaker prior to August 30, 2013 was Chuck Hoskin, Jr. The role of the Tribal Council is to adopt legislation and to conduct other business in the best interest of the Cherokee people.

Judicial Branch

The Judicial Branch consists of the Supreme Court and the Cherokee Nation District Court. Supreme Court Justices are appointed by the Principal Chief and confirmed by the Tribal Council. The Chief Justice currently is Darrell Dowty. The primary responsibility of the Justices is to hear and resolve any disagreements arising under the provisions of the Constitution or any enactment of the Tribal Council. The District Court system hears all cases brought before it under jurisdiction of the Cherokee Nation Code Annotated, Title 20, Courts and Procedure.

Reporting Entity

The Nation determines its financial reporting entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 61 and, based on that criterion, has included the following entities as component units within the Nation's basic financial statements.

Cherokee Nation Businesses, LLC (CNB) and its blended component units
Housing Authority of the Cherokee Nation (HACN)
Cherokee Nation Comprehensive Care Agency (CNCCA)
Cherokee Nation Home Health Services, Inc. (CNHHS)
Cherokee Nation Waste Management, LLC (CNWM)
Cherokee Nation Economic Development Trust Authority (EDTA)
Cherokee Nation Foundation (CNF)
Cherokee National Historical Society, Inc. (CNHS)

The nature of the activities of these organizations and the specific basis for inclusion as a component unit of the Nation are discussed in the notes to basic financial statements.

Internal Controls

The management of the Nation is responsible for ensuring that adequate accounting data is compiled to allow for the preparation of financial statements in conformity with GAAP. Management of the Nation is also responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the Nation are protected from loss, theft or misuse. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management. The Nation did not change any financial policies that had a significant impact on the fiscal year's financial statements.

Single Audit

As a recipient of federal and state financial assistance, the Nation is responsible for ensuring that an adequate internal control structure is in place to ensure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by management of the Nation.

As a part of the Nation's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the Nation has complied with applicable laws and regulations. The results of the Nation's single audit process for the fiscal year ended September 30, 2013, will be included in a separately issued Single Audit Report.

Budgetary Process

Title 62, §31-32 provides the legal level of budgetary control for the Cherokee Nation. The Executive and Finance Committee of the Tribal Council, upon direction of the Treasurer and with advisement from the Controller, shall formulate an annual appropriations bill. The bill shall contain the legal budgeted annual revenues and expenditures/expenses for the general fund and enterprise funds for the executive, legislative and judicial branches of government. The sources of revenue may be based upon estimates. The budgeted expenditures for these funds shall not exceed total estimated revenues and beginning fund balance and net position. Cherokee Nation limits uses of funds to the availability of the sources of revenues.

Should the need arise for management to transfer funds or propose additional appropriations, the Executive and Finance Committee of the Tribal Council, upon direction of the Treasurer and with advisement from the Controller, shall be responsible for proposing amendments to the annual appropriations law based upon material changes in real or estimated revenues and expenditures that affect the total amounts budgeted. Any amendments to the annual appropriations bill shall be presented to the Tribal Council for consideration and passage. Any funds received by the Cherokee Nation, the use of which is determined by the granting or contracting agency (special revenue funds) shall be used only for those purposes and under those conditions for which the funds are made available and such funds are not subject to legal appropriation by the Tribal Council.

The basic financial statements contain a budget and actual comparative statement for the General Fund, a legally budgeted fund. A budgetary statement for enterprise funds, which are also legally budgeted, is included in the budgetary information section of Other Supplementary Information. Budgets for the Nation are prepared on the same basis of accounting as the financial statements.

Long-Term Financial Planning

Since fiscal year 2004, the Cherokee Nation primary government has increased its total assets by approximately \$913,326,000 or 365%. The Nation's long-term financial planning process involves a dedicated budgeting process that ensures discretionary resources are used to support the vision of the Nation: "Homes, Health, Hope." This planning process encompasses the annual financial budget process as well as long-term forecasting for use of the Nation's resources. Additionally, new ideas and efficiencies are continually being incorporated to further advance the Nation's initiatives which include greater emphasis on housing, health care, careers and education.

Through expansion of its component units, the Nation works to establish a productive, sustainable economy for the citizens of the Nation. In addition to creating greater opportunities through its component units, the Nation has been successful in partnering with outside entities to attract new industries and create jobs within the Nation's jurisdiction. Beginning in 2013, through a collaborative partnership with CNB, the Nation continues to improve access to health care through the construction of updated or expanded health care facilities by way of a \$100 million capital investment.

Use of the Report

This report will be submitted to the Federal Audit Clearinghouse in compliance with the requirements of the Office of Management and Budget (OMB) Circular A-133 "Audits of States and Local Governments and Non-Profit Organizations". Copies of the reports will also be submitted to elected officials of the Nation and various other agencies which require copies as a condition of funding provided to the Nation under grants and contracts. Use of this report by the departments of the Nation is encouraged.

Readers of this report should refer to Management's Discussion and Analysis for better understanding of the financial activities of the Nation. The MD&A provides the reader with an easily readable discussion of the basic financial statements, significant differences, comparative analyses, fund financial analysis, significant budget variations, and facts, decisions or conditions which have or are expected to have a significant effect on the Nation's financial position or results of operations.

Certificate of Achievement

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to Cherokee Nation for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2012. This was the twelfth consecutive year that the Nation has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. The members of Financial Resources believe that the current CAFR continues to meet the Certificate of Achievement Program's requirements. We will be submitting the CAFR to the GFOA to determine its eligibility for another certificate.

Acknowledgements

The preparation of the 2013 CAFR was a tremendously involved task requiring the professional skills of the entire Financial Resources Department. I would like to express my gratitude to the Financial Resources Department for their dedication and continuous hard work. I would also like to thank BKD LLP, independent auditors for the Cherokee Nation, for their guidance and technical assistance in completing this CAFR.

Respectfully submitted,



Lacey A. Horn
Treasurer

Cherokee Nation Tribal Officials

EXECUTIVE BRANCH

Bill John Baker
Principal Chief

S. Joe Crittenden
Deputy Principal Chief

LEGISLATIVE BRANCH

Tina Glory-Jordan
Speaker
District 1

Janelle Fullbright
Deputy Speaker
District 6

Joe Byrd
District 2

David Walkingstick
District 3

Don Garvin
District 4

David Thornton, Sr.
District 5

Frankie Hargis
District 7

Jodie Fishinghawk
District 8

Curtis Snell
District 9

Harley Buzzard
District 10

Victoria Vazquez
District 11

Dick Lay
District 12

Cara Cowan Watts
District 13

Lee Keener
District 14

Janees Taylor
District 15

Jack D. Baker
At Large

Julia Coates
At Large

JUDICIAL BRANCH

Darrell R. Dowty
Chief Justice

Supreme Court
James G. Wilcoxon
Justice

Angela Jones
Justice

John C. Garrett
Justice

Troy Wayne Poteete
Justice

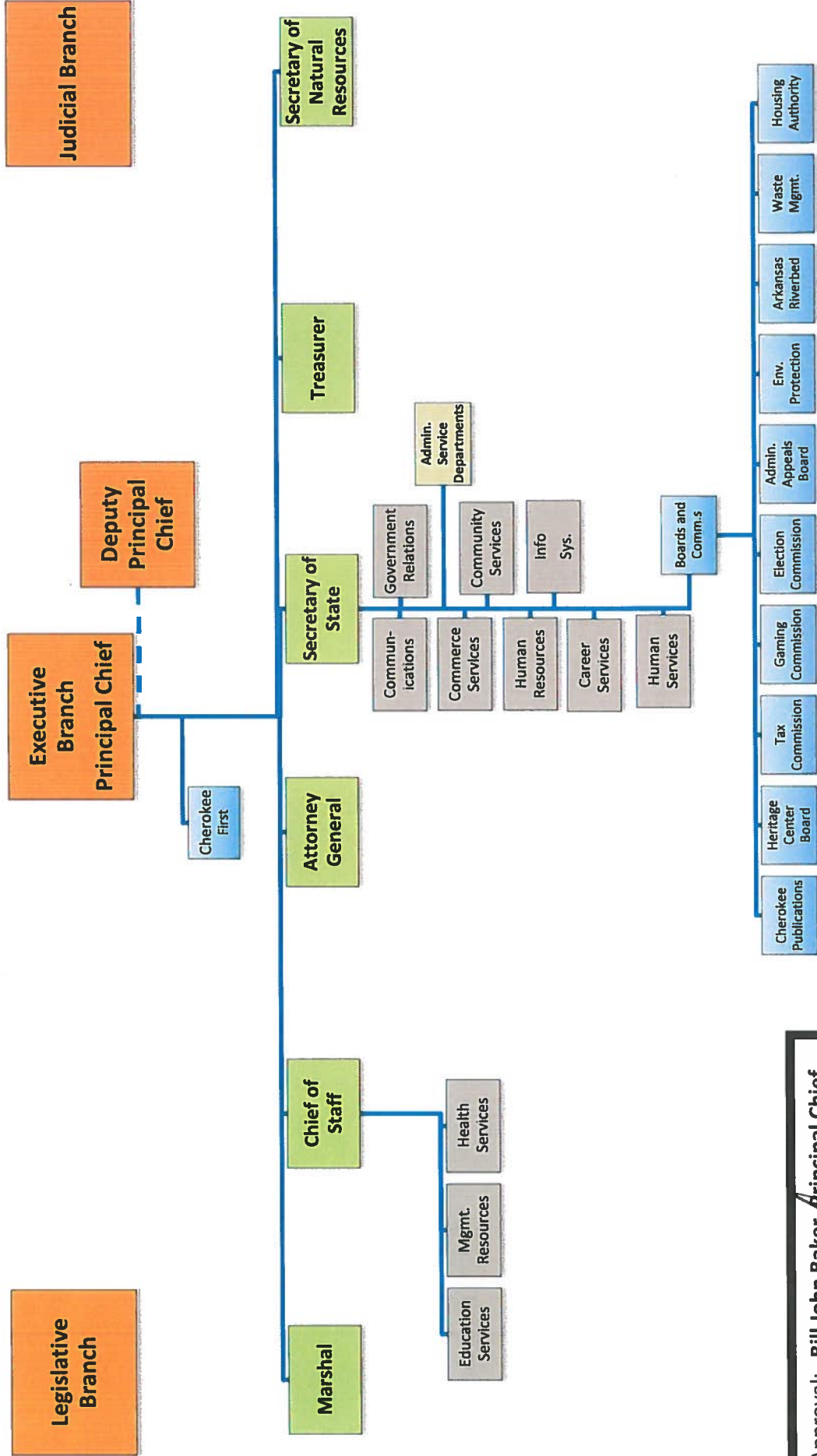
John T. Cripps
Judge

District Court

C. Bart Fite
Judge



CHEROKEE NATION ORGANIZATIONAL CHART



Approval: **Bill John Baker, Principal Chief**
 Signature: *[Handwritten Signature]*
 Date: 9/26/13



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

**Cherokee Nation
Oklahoma**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

September 30, 2012

Executive Director/CEO

SECTION
II

FINANCIAL



FINANCIAL RESOURCES

CHEROKEE NATION



2013
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

TAHLEQUAH, OKLAHOMA

Independent Auditor's Report on Financial Statements and Supplementary Information

Principal Chief and Tribal Council
Cherokee Nation
Tahlequah, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Cherokee Nation (the Nation), as of and for the year ended September 30, 2013, and the related notes to the basic financial statements, which collectively comprise the Nation's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing Authority of the Cherokee Nation (HACN), the Cherokee Nation Comprehensive Care Agency (CNCCA), the Cherokee Nation Foundation (CNF), the Cherokee National Historical Society (CNHS) or Cherokee Nation Waste Management, LLC (CNWM), which are discretely presented component units of the Nation. The financial statements of HACN, CNCCA, CNF, CNHS and CNWM, which collectively comprise approximately 15% of total assets and 3% of total operating revenues of the aggregate discretely presented component units, were audited by other auditors whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for HACN, CNCCA, CNF, CNHS and CNWM, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of CNF and CNHS, component units included in the financial statements of the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we and the other auditors have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Cherokee Nation as of September 30, 2013, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Implementation of New Accounting Standards

As discussed in *Note 1* to the financial statements, in 2013, the Nation changed its method of accounting for discretely presented component units, specifically those in which the Nation has an equity interest, its derivative instrument – rate swap and bond issuance costs with the adoption of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus an Amendment of GASB Statements No. 14 and No. 34*; Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*; and Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinions are not modified with respect to these matters.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nation's basic financial statements. The accompanying combining statements and budgetary information, listed as other supplementary information in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Information

Our audit was conducted for the purpose of forming opinions on the basic financial statements as a whole. The introductory and statistical sections listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2014, on our consideration of the Nation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nation's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
March 28, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Nation's management provides Management's Discussion and Analysis (MD&A) of the Comprehensive Annual Financial Report (CAFR) as a tool for readers of the Nation's financial statements for the fiscal year ended September 30, 2013. Readers of the Nation's financial statements are encouraged to utilize this information in conjunction with the information provided in the letter of transmittal, which precedes this section, and the accompanying basic financial statements and disclosures following this section.

Financial Highlights

The Nation's assets and deferred outflow of resources exceeded its liabilities at the end of fiscal year 2013 by \$908 million (net position). Of this total amount, \$38 million is unrestricted net position that may be used to meet the government's ongoing obligations.

The Nation implemented Governmental Accounting Standards Board Statement No. 61 "*The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*" (GASB No. 61) during the current year. This statement changed the accounting of the Nation's equity interest in certain discretely presented component units (DPCU) by reporting them as an asset in the accompanying statement of net position for governmental activities and recognizing the change in equity of the DPCU's that occurred during the year in the accompanying statement of activities. These items were previously not reported in the governmental activities of the Nation. The amounts in the MD&A have been updated for both 2012 and 2013 to reflect the change of the implementation of GASB No. 61 for comparison purposes.

The Nation's overall liabilities at the end of fiscal year 2013 decreased by approximately \$3 million to \$257 million.

The net position increased by \$48 million, which is largely attributable to the recognition of income on investment in component units because of the implementation of GASB No. 61 noted above, offset by decreased special dividends received during fiscal year 2013.

Overview of the Financial Statements

Basic Financial Statements

This discussion and analysis serves as an introduction to the Nation's basic financial statements. The Nation's basic financial statements are comprised of government-wide financial statements, fund financial statements, and notes to the basic financial statements. The CAFR also contains other information to supplement the basic financial statements.

Government-Wide Financial Statements

The *Government-Wide Financial Statements* provide a broad overview of the Nation's finances and operations in a manner similar to private-sector business. The statements provide information about the Nation's financial position on both a short-term and long-term basis. The statements are prepared using the accrual basis of accounting and an economic resources management focus. The government-wide financial statements include the Statement of Net Position and the Statement of Activities.

The *Statement of Net Position* presents the assets, deferred outflow of resources and liabilities for the entire Nation, with the difference between the assets and deferred outflow of resources less liabilities

reported as “net position.” Increases or decreases in net position over time can serve as an indicator of the improvement or decline in the Nation’s financial position.

The *Statement of Activities* presents information about how the Nation’s net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of when the related cash flows occur. Utilizing this method, revenues and expenses are reported when earned and incurred, rather than when cash is received or expended.

The financial statements include separate sections for three different types of activities. The three types are as follows:

Governmental Activities presents information about activities supported by dividends from component units, taxes, intergovernmental revenues (state and federal grants), and private grants. The services provided by the Nation’s government generally fall into this category, including tribal government, health services, education services, human services, and community services.

Business-Type Activities are intended to recover all or a substantial portion of their costs through user fees and charges to external users of the goods and services. The active business-type activities of the Nation include the Title VI Loan Fund, Tsa-La-Gi Apartments, Landfill Closure and Economic Development Trust Authority (EDTA).

Discretely Presented Component Units are the operations for which the Nation has financial accountability, but have certain independent qualities, such as an independent Board of Directors. For the most part, these units operate similar to private-sector business. The Nation’s discretely presented component units are:

- Cherokee Nation Businesses, LLC (CNB) and its blended component units
- Housing Authority of the Cherokee Nation (HACN)
- Cherokee Nation Comprehensive Care Agency (CNCCA)
- Cherokee Nation Home Health Services, Inc. (CNHHS)
- Cherokee Nation Waste Management, LLC (CNWM)
- Cherokee Nation Foundation (CNF)
- Cherokee National Historical Society, Inc. (CNHS)

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been separated for specific activities or objectives. The Nation, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual activities of the Nation’s government, providing more detail than the government-wide financial statements. The funds of the Nation are divided into three types, which use different accounting approaches and should be interpreted differently. The three types of funds are:

Governmental Funds are used to account for the same governmental functions as reported in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on the near-term inflows and outflows of expendable resources. These fund statements also focus on the balances of expendable resources available at the end of the fiscal year. This approach to financial reporting is known as using the flow

of current financial resources and the modified accrual basis of accounting. This method may be useful in evaluating the government's near-term financing requirements. These statements provide a short-term view of the Nation's finances that assist in determining if there will be sufficient financial resources to meet the current needs of the Nation. Most of the services provided by the Nation are financed and reported through the governmental funds.

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on pages 26 and 28 of the financial statements.

The Nation maintains six major governmental funds, each presented in a separate column in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances. The Nation's six major governmental funds are the General, Self Governance Department of Interior (DOI) Roads, Department of Transportation (DOT), Self Governance Department of Health and Human Services (DHHS), Housing and Urban Development (HUD) and Capital Projects Fund. In addition, the Nation maintains fourteen nonmajor funds, shown aggregated, including a debt service fund and two permanent funds to account for other governmental activity. The governmental fund statements can be found on pages 26 and 27 of this report.

Proprietary Funds are used to show activities which operate similar to private-sector enterprises. These funds charge fees for goods and services provided to customers and are known as proprietary funds. Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, except in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no separate reconciliation needed between the proprietary fund financial statements and the government-wide financial statements for business-type activities.

The proprietary funds financial statements can be found on pages 30 - 32 following the governmental fund financial statements. The Nation's proprietary funds include Enterprise and Internal Service Funds, which are described below.

Enterprise Funds — The Nation has one major enterprise fund and three nonmajor enterprise funds for presentation purposes. The major fund is the Nation's Title VI Loan Fund. The nonmajor funds are the Nation's Tsa-La-Gi Apartments, Landfill Closure and Economic Development Trust Authority (EDTA). The nonmajor enterprise combining financial statements can be found on pages 88 - 90 of this report.

Internal Service Funds are used to account for activities related to goods and services provided by one department to other departments of the Nation and to other governmental units, on a cost reimbursement basis. The internal service funds are:

Internal Leases which are used to account for the cost to maintain buildings for use by other funds of the Nation.

Fringe Pool which is used to account for the cost of fringe benefits, including the Nation's self-insured health care and worker's compensation benefits, used by other funds of the Nation.

Indirect Cost Pool which is used to account for the cost of providing certain services, such as accounting, human resources, information systems and acquisition management, to other funds of the Nation.

The internal service funds combining financial statements can be found on pages 91 - 93 of this report.

Cherokee Nation Component Unit Financial Statements, as previously mentioned above, are operations over which the Nation has financial accountability, but they have independent qualities as well, similar to private-sector business. The government-wide financial statements present information for the component units in a single column. The Combining Statement of Net Position and the Combining Statement of Revenues, Expenses and Changes in Net Position present detail for each of the seven discretely presented component units.

The financial statements for component units can be found on pages 33 - 35 of this report.

Notes to Basic Financial Statements

The notes to basic financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements. The notes to basic financial statements can be found on pages 36 - 85 of this report.

Supplementary Information

The basic financial statements are followed by a section of supplementary information. This section of the report includes combining schedules for nonmajor governmental and enterprise funds, internal service funds and a budgetary comparison schedule for the Nation's enterprise funds. The supplementary information section begins on page 86.

Statistical Information

The statistical section provides financial statement users with additional detailed information as a context for understanding the information in the financial statements, notes to the financial statements, and other supplementary information as it relates to the government's overall financial health. Included in the statistical section are schedules related to financial trends, revenue capacity, debt capacity, demographic and economic indicators, and operating information. The statistical information section begins on page 95.

Comparative Analysis for Major Funds

The following is a comparative analysis for the Nation's major funds (dollars in thousands):

<u>Major Fund</u>	<u>2013</u>	<u>2012</u>	<u>Increase/ (Decrease)</u>	<u>Percent Increase/ (Decrease)</u>
General Fund				
Revenues, insurance recoveries and transfers in	\$ 77,338	\$ 93,811	\$ (16,473)	(17.6)%
Expenditures and transfers out	98,027	71,242	26,785	37.6 %
Self Governance DOI Roads				
Revenues, insurance recoveries and transfers in	10,510	5,383	5,127	95.2 %
Expenditures and transfers out	10,510	5,383	5,127	95.2 %
Department of Transportation				
Revenues, insurance recoveries and transfers in	3,690	6,579	(2,889)	(43.9)%
Expenditures and transfers out	3,773	6,572	(2,799)	(42.6)%
Self Governance DHHS				
Revenues, insurance recoveries and transfers in	227,368	216,326	11,042	5.1 %
Expenditures and transfers out	224,899	227,831	(2,932)	(1.3)%
Housing and Urban Development				
Revenues, insurance recoveries and transfers in	34,340	34,850	(510)	(1.5)%
Expenditures and transfers out	34,291	32,341	1,950	6.0 %
Capital Projects Fund				
Revenues and transfers in	14,954	12,441	2,513	20.2 %
Expenditures and transfers out	12,251	26,278	(14,027)	(53.4)%
Title VI Loan Fund				
Revenues and transfers in	125	191	(66)	(34.6)%
Expenses and transfers out	124	190	(66)	(34.7)%

General Fund revenues are down primarily due to a decrease in the dividend reported for FY 13 and the elimination of the Housing programs (which were assumed by the HACN) offset by increases in Gaming Commission fees, other receipts for the Cherokee Day Training Program and Economic Development as well as registration fees, taxes and title fees for the Cherokee Nation Tax Commission Tag Office. Transfers in decreased as a result of a one-time transfer from Sequoyah Education for reimbursement of expenditures for the gymnasium and decreased interest receipts.

General Fund expenditures increased in fiscal year 2013 as compared to fiscal year 2012 primarily as a result of increased spending for the following projects/programs: Contract Health Services Dividend, Economic Development, Cherokee Day Training, Tribal Election Fund, CN Water Plan, Tax Commission, Litigation, Community Waterlines and MFT Higher Education Scholarships offset by decreases in Housing programs (which were assumed by the HACN) and MVT Highways Construction. Transfers out increased due primarily to new Capital Projects

Self Governance DOI Roads experienced an increase in both the revenues and transfers in and expenditures and transfers out due to an increase in the number of roads being in the major construction phase and a smaller number of roads being in the planning and design phases when compared to the previous year.

Department of Transportation saw both the revenues and transfers in and expenditures and transfers out decrease primarily due to the completion of bridge and road projects and the completion of ARRA funded projects that were substantially completed in the prior year.

Self Governance DHHS revenues and transfers in increased in fiscal year 2013 due to serving more patients through expanded services. Self Governance DHHS expenditures and transfers out decreased in fiscal year 2013 as a result of fewer construction projects offset by expanded services and equipment upgrades.

Housing and Urban Development saw revenues and transfers in decrease in the HUD programs primarily due to the removal of property rentals that returned to the HACN. HUD expenditures and transfers out increased from fiscal year 2012 as a result of increased services including rehabilitation of homes for Cherokee citizens and other qualified home owners.

Capital Projects Fund revenues and transfers in increased due to transfers in of funds for the construction of the Veterans Center and Jack Brown Center and other capital projects. The Capital Projects fund expenditures and transfers out decreased due to completion of construction on the Vinita Clinic offset by increases related to the construction of the Stilwell Child Development Center and the Jack Brown Center. The construction projects are being funded through internal sources.

Title VI Loan Fund revenues and transfers in decreased in fiscal year 2013 as compared to fiscal year 2012 due to decreased interest received on lower notes receivable balances. Title VI loan fund expenses and transfers out decreased as a result of lower balances outstanding on the notes payable, as well as lower interest rates on the variable portion of the loan.

Government-Wide Financial Analysis

Net Position

As stated earlier, the government-wide financial statements are presented to give a broad overview of the government as a whole. Total assets and deferred outflows of resources for the Nation's governmental activities at fiscal year ended September 30, 2013 were \$1.15 billion. Of the \$1.15 billion, \$641 million is related to the Nation's equity interests in component units and another \$159 million was related to investment in capital assets such as land, buildings, and equipment. Other assets, primarily cash, investments, and receivables, represent funds available to meet both current and future obligations of the Nation.

Total liabilities of the Nation's governmental activities at September 30, 2013 were \$244 million. Of this amount, approximately \$36 million related to long-term obligations primarily for the debt issued to construct two health clinics and expand a third health clinic as well as a loan to build an additional health clinic. Other liabilities represented accounts payable, unearned grant revenue, and other obligations generally due within one year of the financial statement date.

The assets and deferred outflow of resources of the Nation's governmental activities exceeded liabilities at September 30, 2013 by \$902 million, which is stated as net position. Of the \$902 million stated as net position, \$641 million is restricted as equity interests in component units, resulting from the implementation of GASB No. 61.

The Nation's business-type activities had total assets of \$19 million at September 30, 2013. Of the \$19 million, \$483 thousand was related to net investment in capital assets such as land, buildings and equipment. The liabilities related to the business-type activities at the fiscal year end were \$13 million. The majority of this amount was related to long-term obligations primarily for the Title VI guaranteed loan program used to provide affordable housing to Tribal citizens and economic development trust authority loans for small business development, and the landfill. Other liabilities

represented accounts payable and other obligations generally due within one year of the financial statement date. The assets of the Nation's business-type activities exceeded liabilities at September 30, 2013 by \$6 million, which is stated as net position. The following table presents the Nation's net position for the primary government (dollars in thousands):

	Cherokee Nation's Net Position						Increase/ (Decrease)
	Governmental		Business-Type		Total		
	Activities		Activities				
	2013	2012	2013	2012	2013	2012	
Current and other assets	\$ 985,665	\$ 950,378	\$ 18,427	\$ 21,351	\$ 1,004,092	\$ 971,729	\$ 32,363
Capital assets	159,055	146,609	483	533	159,538	147,142	12,396
Total assets	<u>1,144,720</u>	<u>1,096,987</u>	<u>18,910</u>	<u>21,884</u>	<u>1,163,630</u>	<u>1,118,871</u>	<u>44,759</u>
Deferred outflows of resources	684	1,557	-	-	684	1,557	(873)
Long-term debt outstanding	35,723	39,640	9,976	13,349	45,699	52,989	(7,290)
Other liabilities	208,048	204,672	2,909	2,840	210,957	207,512	3,445
Total liabilities	<u>243,771</u>	<u>244,312</u>	<u>12,885</u>	<u>16,189</u>	<u>256,656</u>	<u>260,501</u>	<u>(3,845)</u>
Net investment in capital assets	123,091	102,104	483	533	123,574	102,637	20,937
Restricted	746,032	691,955	279	362	746,311	692,317	53,994
Unrestricted	32,510	60,173	5,263	4,800	37,773	64,973	(27,200)
Total net position	<u>\$ 901,633</u>	<u>\$ 854,232</u>	<u>\$ 6,025</u>	<u>\$ 5,695</u>	<u>\$ 907,658</u>	<u>\$ 859,927</u>	<u>\$ 47,731</u>

\$123.5 million of the net position balance represents net investment in capital assets. Restricted net position represents external restrictions placed upon assets of the Nation. The largest category of restricted net position is related to net position restricted for equity interests in component units. The second largest category of restricted net position is related to net position restricted for specific program purposes. Of the total net position, \$38 million is reported as unrestricted net position. The unrestricted net position represents amounts available for future services for the Nation's citizens, obligations, and creditors.

At September 30, 2013, the Nation reported positive net position for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Position

The Nation's total net position increased by \$47.73 million, or 5.55% during the year. Total revenues for fiscal year ended September 30, 2013 were \$504.21 million. Total expenses of the Nation were \$457.36 million, which cover a variety of services. Approximately 56.08% of the total expenses were for health care for Tribal citizens. In total, governmental-type revenues exceeded expenses by \$47.40 million. Net revenues for business-type activities exceeded expenses by \$330 thousand. The changes in net position during 2013 are as follows (dollars in thousands):

Cherokee Nation's Changes in Net Position

	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 86,135	\$ 78,083	\$ 875	\$ 906	\$ 87,010	\$ 78,989
Operating grants/contributions	277,312	283,446	-	-	277,312	283,446
Capital grants/contributions	5,036	366	-	-	5,036	366
General revenues:						
Motor fuel tax	7,615	7,435	-	-	7,615	7,435
Motor vehicle tax	9,641	8,960	-	-	9,641	8,960
Tobacco tax and fees	3,631	3,943	-	-	3,631	3,943
Sales tax	3,363	3,111	-	-	3,363	3,111
Grants and contributions not restricted to specific programs	12,844	11,676	-	-	12,844	11,676
Unrestricted investment earnings	864	1,141	1	1	865	1,142
Dividends from Component Units	44,109	56,806	-	-	44,109	56,806
Miscellaneous	3,921	5,249	-	-	3,921	5,249
Increase in equity in component units	49,740	52,969	-	-	49,740	52,969
Total revenues	504,211	513,185	876	907	505,087	514,092
Expenses:						
Tribal government	28,885	29,428	-	-	28,885	29,428
Health services	256,465	244,547	-	-	256,465	244,547
Education services	57,076	54,061	-	-	57,076	54,061
Human services	40,432	38,575	-	-	40,432	38,575
Community services	72,344	68,391	-	-	72,344	68,391
Interest on long-term debt	1,414	1,569	-	-	1,414	1,569
Total governmental expenses	456,616	436,571	-	-	456,616	436,571
Title VI Loan Fund	-	-	124	190	124	190
Tsa-La-Gi Apartments	-	-	492	473	492	473
Landfill Closure	-	-	-	16	-	16
EDTA	-	-	124	46	124	46
Total business-type expenses	-	-	740	725	740	725
Increase in net position before transfers	47,595	76,614	136	182	47,731	76,796
Transfers	(194)	(643)	194	643	-	-
Change in net position	47,401	75,971	330	825	47,731	76,796
Net position-Beginning of year	854,232	778,261	5,695	4,870	859,927	783,131
Net position-End of year	\$ 901,633	\$ 854,232	\$ 6,025	\$ 5,695	\$ 907,658	\$ 859,927

The more significant increases in expenses in fiscal year 2013 as compared to fiscal year 2012 are as follows:

Health services increased funding for contract health, clinic and hospital expenditures offset by decreases in construction projects.

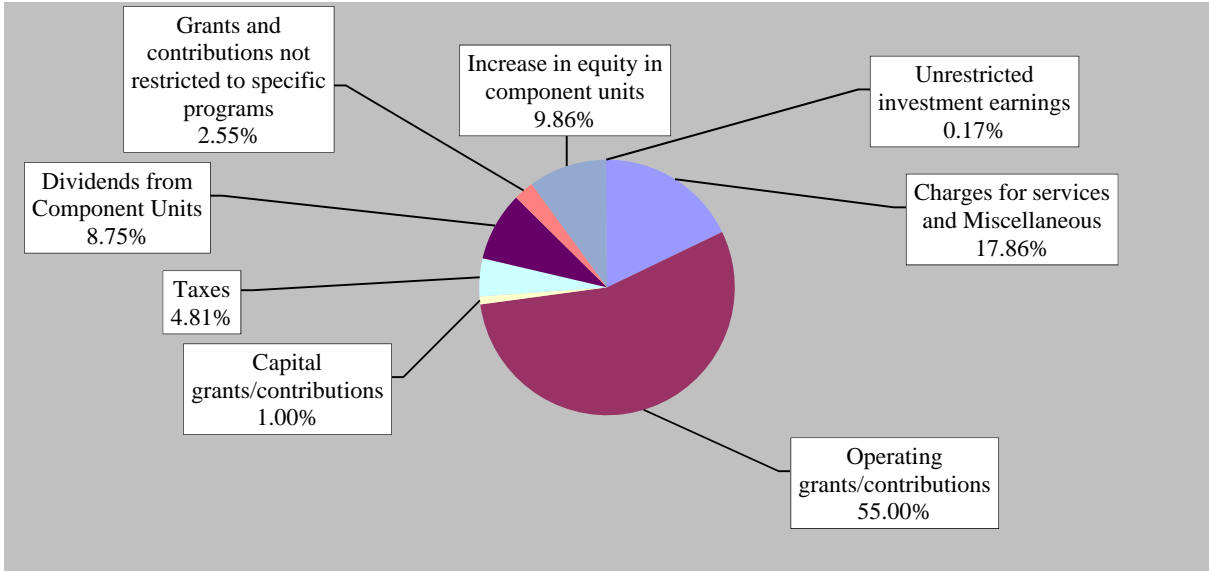
Education services increased due to programs such as Cherokee Immersion Program, Tribal Summer Youth, Cherokee Day Training Program, Economic Development, Head Start Supplemental program and Vocational Assistance.

Human services increased in programs such as Elders in Need, PL 102-477 Combined Interest, Family Violence, Food Distribution and Citizens Corp CITGO Assistance Program.

Community services increased because of increased expenditures related to the construction of roads, highways and bridges as well as water and sewer projects.

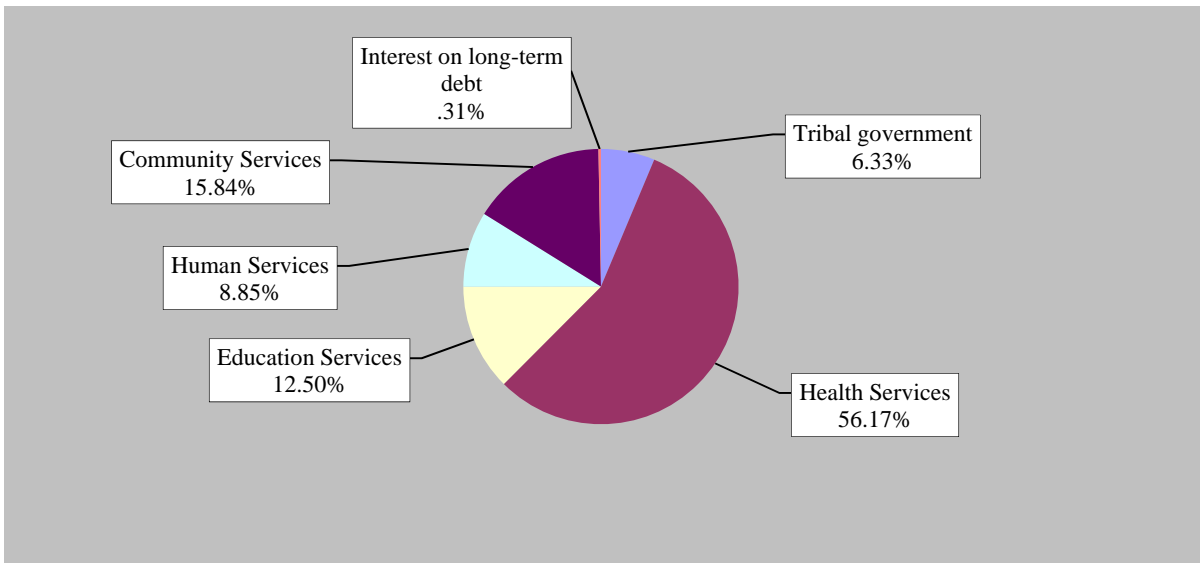
Graph 1 depicts revenues by source for the Governmental Activities of the Nation.

Graph 1 – Revenues by Source - Governmental Activities



Graph 2 depicts expenses by function for the Governmental Activities of the Nation.

Graph 2 - Expenses - Governmental Activities



For more detailed information on the charts presented above, refer to the Statement of Activities on page 25.

Significant Budget Variations

The Nation's significant General Fund budget variations in 2013 were as follows (dollars in thousands):

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Variance Increase/ (Decrease)</u>	<u>Percentage Increase/ (Decrease)</u>	<u>Actual</u>	<u>Variance Increase/ (Decrease)</u>	<u>Percentage Increase/ (Decrease)</u>
Revenues:							
Property Rentals	617	617	-	- %	691	74	12%
Trust fund income	110	110	-	- %	96	(14)	(13%)
Dividends from							
component units	43,750	48,750	5,000	11%	44,109	(4,641)	(10%)
Other	3,977	4,374	397	10%	3,302	(1,072)	(25%)
Expenditures:							
Tribal government	33,627	34,696	1,069	3%	20,278	(14,418)	(42%)
Education services	22,258	30,015	7,757	35%	25,849	(4,166)	(14%)
Community services	20,778	24,699	3,921	19%	15,079	(9,620)	(39%)
Capital outlay	3,857	4,099	242	6%	961	(3,138)	(77%)

The Nation's Tribal Council approved a comprehensive annual budget prior to the beginning of the fiscal year. During the year, budget modifications were submitted to Council based upon anticipated changes in levels of actual revenues and expenditures/expenses. Variances between actual and final General Fund budget were as follows:

Property rentals — Actual revenue was more than budget due to additional leases let during the fiscal year.

Trust fund income — Actual revenue was less than budget due to lower actual royalties on oil and gas than expected.

Dividends from component units — Actual revenue was lower than budget due to lower Net Income from Component Units.

Other — Actual revenue received by the Cherokee Day Training Program, Economic Development, Environmental Protection Commission and Marshal Service CNE Contract programs was less than budgeted.

Tribal government — The actual expenditures were less than budget, primarily caused by reserves established for cash match for grants and contingencies which were not utilized in 2013 as well other program expenditures not fully expended at the level budgeted for Government Resources, Gaming Commission, Government Relations, Litigation, Facilities Improvement, Tribal Election Fund, Advocacy Initiative, Communications, Employee Performance Incentives and the Tribal Council.

Education services — Actual expenditures were less than budget due to reserves established for the MFT Education Reserve program as well as program expenditures not fully expended at the level

budgeted for Cherokee Day Training Program, Economic Development, MVT Public School Coop, MFT Higher Education Scholarships, Vocational Assistance, Horton Scholarships for Women, Cherokee National Youth Choir, Directed Studies Program and Vocational Work Preparation.

Community services — Actual expenditures were less than budget as a result of reserves for Motor Vehicle revenue allocations which are reserved in the current year and expended in the following year and timing of projects including roads construction and bridge construction in the Motor Fuel and Motor Vehicle programs. Other programs, such as Tribal Bridge and Community Youth Grant did not expend funds at the level budgeted.

Capital outlay — The Nation’s budget included approximately \$3 million for strategic land purchases from the proceeds of the Arkansas Riverbed settlement funds. Actual expenditures were less than budget partially due to timing of land purchases.

Capital Assets and Debt Administration

The Nation’s capital assets, net of depreciation, at the end of fiscal year 2013 were \$160 million. The Nation has no public domain (infrastructure) capital assets. The following table presents details of the Nation’s capital assets, net of depreciation (dollars in thousands):

	Governmental Activities	Business-type Activities	Total
Land and improvements	\$ 19,100	\$ 81	\$ 19,181
Construction in progress	8,536	-	8,536
Buildings and improvements	110,333	402	110,735
Equipment	21,086	-	21,086
Total capital assets	<u>\$ 159,055</u>	<u>\$ 483</u>	<u>\$ 159,538</u>

Additional information on the Nation’s capital assets can be found in Note 7 on pages 64 - 66 of this report.

The Nation’s long-term debt at the end of fiscal year 2013 was approximately \$46 million, primarily related to Title VI loan program and health clinic construction and expansion. The following is a summary of long-term debt at September 30, 2013 (dollars in thousands):

	Governmental Activities	Business-type Activities	Total
Notes payable	\$ 18,933	\$ 9,976	\$ 28,909
Bonds payable	16,790	-	16,790
Total long-term debt	<u>\$ 35,723</u>	<u>\$ 9,976</u>	<u>\$ 45,699</u>

The Nation, as a tribal government, has the ability to incur debt, similar to a state or local government. In July 2002, the Nation entered into an agreement with JP Morgan Chase, which was previously Bank One, guaranteed by the United States Department of Housing and Urban Development. The purpose of the credit facility was to loan money to the HACN which, in turn, used

the money in the building of affordable housing for Tribal citizens. As of September 30, 2013, the outstanding balance of this credit facility totaled approximately \$9 million.

The bond issuance, which occurred in fiscal year 2007, provided the funding necessary to construct new clinics in Muskogee and Nowata and expand the clinic in Sallisaw. The debt and interest associated with this bond issuance is serviced through health third party revenues.

The Nation entered into a 15 year note in 2010 to finance the construction of a new clinic in Vinita, Oklahoma.

Additional information on the Nation's long-term debt can be found in Note 8 on pages 67 - 72 of this report.

Economic Factors and Next Year's Budget

The Nation continues to provide vital services to the citizens despite the prolonged economic downturn. The outlook for 2014 revenue is relatively flat for General Fund. Budgeted expenditures and transfers for the Nation's General Fund for fiscal year 2014 total \$127 million, approximately \$20 million less than the final amounts budgeted for fiscal year 2013 due to a reduction of carryover funding budgeted for fiscal year 2013.

The sequestration of the United States Budget Control Act of 2011 became effective on March 1, 2013. This sequestration resulted in funding reductions to certain federal programs. Some programs incurred a reduction in funding as large as 5.5%. The Nation had planned for this possibility and implemented several cost containment measures; sequestration is not expected to have a significant impact on the Nation during fiscal year 2014.

The economic uncertainty is expected to continue to have some impact on gaming; however, the overall effect has been mitigated to a large degree through strategic growth and marketing strategies. The expansions by other tribes in the Tulsa market provide direct competition for the Nation's Catoosa casino operated by Cherokee Nation Entertainment, LLC (CNE). To address the competitive factors, CNB and CNE have begun an aggressive growth and development strategy for its flagship properties including branding the Catoosa facility as a Hard Rock Hotel and Casino. CNE also continues its innovative approach to offering the newest gaming options available and to improve loyalty within its existing customer base including targeted marketing and rewards programs.

Contacting the Nation's Financial Management

This financial report is designed to provide a general overview of the Nation's finances to its citizens, customers, creditors, and other interested parties. For additional information related to the Nation or its component units, please access the Cherokee Nation website at www.cherokee.org.



NATIONAL CAPITOL

CHEROKEE NATION



BASIC FINANCIAL STATEMENTS

2013
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

TAHLEQUAH, OKLAHOMA

GOVERNMENT-WIDE
FINANCIAL STATEMENTS

2013
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT



TAHLONTEESKEE
COURTHOUSE



GORE, OKLAHOMA

CHEROKEE NATION

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 258,750	\$ 1,819	\$ 260,569	\$ 115,378
Investments	11,226	-	11,226	17,396
Accounts receivable, net	18,645	-	18,645	54,799
Mortgages receivable, Title VI and partnerships, current	-	-	-	550
Due from other funds - Internal Balances	375	(375)	-	-
Due from primary government	-	-	-	309
Due from component units	(247)	9	(238)	-
Inventories	3,626	-	3,626	16,598
Notes receivable	42	2,221	2,263	-
Other current assets	9,483	2	9,485	7,197
Restricted cash, cash equivalents and investments	37,628	2,991	40,619	10,612
Long-term notes receivable	1,748	11,760	13,508	1,665
Long-term mortgages receivable, Title VI and partnerships	-	-	-	17,857
Other assets	2,976	-	2,976	3,100
Investment in joint ventures/partnerships	-	-	-	8,227
Equity interests in component units	641,413	-	641,413	-
Capital assets, non depreciable	27,007	81	27,088	68,339
Capital assets, depreciable, net	132,048	402	132,450	531,215
Total assets	1,144,720	18,910	1,163,630	853,242
Deferred Outflow of Resources				
Accumulated decrease in fair value of hedging derivative	684	-	684	-
Total deferred outflow of resources	684	-	684	-
Liabilities				
Accounts payable	12,902	-	12,902	92,232
Accrued liabilities	35,801	46	35,847	-
Other current liabilities	10,547	22	10,569	-
Unearned revenue	141,561	-	141,561	62
Notes payable and long-term debt				
Due within one year	3,475	1,263	4,738	1,398
Due in more than one year	32,248	8,713	40,961	10,407
Compensated absences				
Due within one year	6,553	-	6,553	-
Derivative instrument - rate swap	684	-	684	-
Trust liabilities	-	-	-	5,759
Other noncurrent liabilities	-	2,841	2,841	-
Total liabilities	243,771	12,885	256,656	109,858
Net Position				
Net investment in capital assets	123,091	483	123,574	592,214
Restricted for				
Education, Roads and Safety (MVT)	8,916	-	8,916	-
Education, Health, Roads and Safety (MFT)	36,370	-	36,370	-
Permanent Funds - expendable	77	-	77	-
Permanent Funds - nonexpendable	425	-	425	-
Construction	-	-	-	390
Debt service	1,771	-	1,771	504
Equity interests in component units	641,413	-	641,413	-
Investment in partnership/joint ventures	-	-	-	1,379
Program services	57,060	-	57,060	38,482
Tsa-La-Gi	-	279	279	-
Unrestricted	32,510	5,263	37,773	110,415
Total net position	\$ 901,633	\$ 6,025	\$ 907,658	\$ 743,384

See notes to basic financial statements

CHEROKEE NATION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(Dollars in Thousands)

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Primary Government		
				Governmental Activities	Business-type Activities	Total
Primary Government: Governmental activities: Tribal government Health services Education services Human services Community services Interest on long-term debt Total governmental activities	\$ 28,885 256,465 57,076 40,432 72,344 1,414 456,616	\$ 4,535 81,588 - - 12 - 86,135	397 163,139 26,309 30,464 57,003 - 277,312	\$ (18,917) (11,738) (30,767) (9,968) (15,329) (1,414) (88,133)	- - - - - - -	\$ (18,917) (11,738) (30,767) (9,968) (15,329) (1,414) (88,133)
Business-type activities: Title VI Loan Fund Tsa-La-Gi Apartments Landfill Closure EDTA Total business-type activities	124 492 - 124 740	124 511 - 240 875	- - - - -	- - - - -	- 19 - 116 135	- 19 - 116 135
Total primary government	<u>\$ 457,356</u>	<u>\$ 87,010</u>	<u>\$ 277,312</u>	<u>(88,133)</u>	<u>135</u>	<u>(87,998)</u>
Component Units	<u>\$ 764,716</u>	<u>\$ 802,390</u>	<u>\$ 13,217</u>			<u>51,024</u>
General Revenues:						
Motor fuel tax				7,615	-	7,615
Motor vehicle tax				9,641	-	9,641
Tobacco tax				3,631	-	3,631
Sales tax				3,363	-	3,363
Grants and contributions not restricted to specific programs				12,844	-	12,844
Unrestricted investment earnings				864	1	865
Dividends from component units				44,109	-	44,109
Miscellaneous revenue				3,921	-	3,921
Income on investment in joint ventures				-	-	-
Increase in equity in component units				49,740	-	49,740
Gain on disposals				-	-	-
Impairment of depletable assets				-	-	-
Transfers				(194)	194	-
Total general revenues and transfers				<u>135,534</u>	<u>195</u>	<u>135,729</u>
Change in net position				47,401	330	47,731
Net position - beginning, as previously reported				263,637	5,695	269,332
Cumulative effect of change in accounting principle				590,595	-	590,595
Net position, beginning, as restated				854,232	5,695	859,927
Net position - ending				<u>\$ 901,633</u>	<u>\$ 6,025</u>	<u>\$ 907,658</u>

FUND FINANCIAL STATEMENTS



VETERANS CENTER

CHEROKEE NATION



2013
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

TAHLEQUAH, OKLAHOMA

CHEROKEE NATION

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

(Dollars in Thousands)

	<u>General</u>	<u>Self Governance DOI Roads</u>	<u>Department of Transportation</u>	<u>Self Governance DHHS</u>	<u>Housing & Urban Development</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS								
Cash and cash equivalents	\$ 63,471	\$ 22,669	\$ 52,702	\$ 45,326	\$ 48,144	\$ -	\$ 26,433	\$ 258,745
Investments	-	-	-	-	-	-	11,226	11,226
Receivables, net	2,589	-	-	10,548	-	-	4,929	18,066
Due from other funds	7,826	-	860	-	1,127	19,818	2,101	31,732
Due from component units	3,175	-	-	-	-	-	-	3,175
Inventories	-	-	-	2,666	-	-	799	3,465
Notes receivable	-	-	-	-	-	-	28	28
Other current assets	26	-	-	8,585	-	-	405	9,016
Restricted cash, cash equivalents and investments	33,121	-	-	-	-	-	4,507	37,628
Total assets	\$ 110,208	\$ 22,669	\$ 53,562	\$ 67,125	\$ 49,271	\$ 19,818	\$ 50,428	\$ 373,081
LIABILITIES AND FUND BALANCES								
LIABILITIES:								
Accounts payable	\$ 12,902	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12,902
Accrued liabilities	9,930	-	-	9,551	-	666	70	20,217
Due to other funds	22,024	2,228	-	17,307	-	-	9,509	51,068
Due to component units	-	-	-	-	3,317	-	-	3,317
Other liabilities	100	-	-	4	6	-	180	290
Unearned revenue	11	20,441	53,562	3,718	39,976	-	23,853	141,561
Total liabilities	44,967	22,669	53,562	30,580	43,299	666	33,612	229,355
FUND BALANCES:								
Nonspendable	-	-	-	11,251	-	-	453	11,704
Restricted	45,286	-	-	25,294	5,972	-	16,363	92,915
Committed	6,012	-	-	-	-	-	-	6,012
Assigned	3,645	-	-	-	-	19,152	-	22,797
Unassigned	10,298	-	-	-	-	-	-	10,298
Total fund balances	65,241	-	-	36,545	5,972	19,152	16,816	143,726
Total liabilities and fund balances	\$ 110,208	\$ 22,669	\$ 53,562	\$ 67,125	\$ 49,271	\$ 19,818	\$ 50,428	

Amounts reported for governmental activities in the statement of net position are different because:

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds.	148,109
The equity interests in component units is not an available resource, and, therefore, is not reported in the funds.	641,413
Assets recorded in government-wide financial statements that are not available to pay for current period expenditures, therefore, are not recorded in the funds.	4,672
Derivative instruments:	
Rate swaps not reported in governmental funds	(684)
Deferred outflow of resources used to accumulate decreases in fair value of hedging derivative also not reported in governmental funds	684
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the Statement of Net Position.	(70)
Liabilities that are not due and payable in the current period and therefore not reported in the funds.	(36,217)

Net position of governmental activities **\$ 901,633**

CHEROKEE NATION

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(Dollars in Thousands)**

	<u>General</u>	<u>Self Governance DOI Roads</u>	<u>Department of Transportation</u>	<u>Self Governance DHHS</u>	<u>Housing & Urban Development</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:								
Intergovernmental	\$ -	\$ 10,430	\$ 3,631	\$ 145,397	\$ 33,472	\$ -	\$ 91,213	\$ 284,143
Property rentals	691	-	-	-	-	-	-	691
Motor fuel tax	7,615	-	-	-	-	-	-	7,615
Taxes, licenses and fees	20,490	-	-	-	-	-	-	20,490
Interest	874	80	59	60	78	-	401	1,552
Trust fund income	96	-	-	-	-	-	-	96
Dividends from component units	44,109	-	-	-	-	-	-	44,109
Third party revenues	-	-	-	81,588	-	-	662	82,250
Other	3,302	-	-	322	705	-	4,159	8,488
Total revenues	<u>77,177</u>	<u>10,510</u>	<u>3,690</u>	<u>227,367</u>	<u>34,255</u>	<u>-</u>	<u>96,435</u>	<u>449,434</u>
Expenditures:								
Current operating:								
Tribal Government	20,278	-	-	257	-	138	5,961	26,634
Health Services	16,474	-	-	208,301	-	821	21,351	246,947
Education Services	25,849	-	-	-	-	-	30,133	55,982
Human Services	4,968	-	-	-	169	81	34,543	39,761
Community Services	15,079	10,445	3,693	4,130	33,519	-	4,485	71,351
Debt service:								
Principal	-	-	-	1,730	-	-	1,795	3,525
Interest	-	-	-	638	-	-	797	1,435
Capital outlay	961	-	21	5,637	603	11,211	2,364	20,797
Total expenditures	<u>83,609</u>	<u>10,445</u>	<u>3,714</u>	<u>220,693</u>	<u>34,291</u>	<u>12,251</u>	<u>101,429</u>	<u>466,432</u>
Excess (deficiency) of revenues over expenditures	<u>(6,432)</u>	<u>65</u>	<u>(24)</u>	<u>6,674</u>	<u>(36)</u>	<u>(12,251)</u>	<u>(4,994)</u>	<u>(16,998)</u>
Other financing sources (uses):								
Insurance recoveries	-	-	-	1	-	-	36	37
Transfers in	161	-	-	-	85	14,954	4,321	19,521
Transfers out	(14,418)	(65)	(59)	(4,206)	-	-	(970)	(19,718)
Total other financing sources (uses)	<u>(14,257)</u>	<u>(65)</u>	<u>(59)</u>	<u>(4,205)</u>	<u>85</u>	<u>14,954</u>	<u>3,387</u>	<u>(160)</u>
Net change in fund balances	(20,689)	-	(83)	2,469	49	2,703	(1,607)	(17,158)
Fund balance, October 1, 2012	<u>85,930</u>	<u>-</u>	<u>83</u>	<u>34,076</u>	<u>5,923</u>	<u>16,449</u>	<u>18,423</u>	<u>160,884</u>
Fund balance, September 30, 2013	<u>\$ 65,241</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,545</u>	<u>\$ 5,972</u>	<u>\$ 19,152</u>	<u>\$ 16,816</u>	<u>\$ 143,726</u>

See notes to basic financial statements

CHEROKEE NATION

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2013 (Dollars in Thousands)

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds \$ (17,158)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. 9,790

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 3,525

The increase in equity in component units, in the statement of activities, do not provide current financial resources and are not reported as revenues in the funds. 49,740

Some expenses are reported in the statement of activities when incurred and presented in the governmental funds when paid. 1,145

Contributions of capital assets recorded as revenue in government-wide financial statements but not recorded at governmental fund level. 5,036

The internal service funds are used to account for those activities which provide services to other functions within the government. The majority of the costs are allocated to the governmental funds in the government-wide financial statements. This amount is the net effect of the allocations. (4,677)

Change in net position of governmental activities \$ 47,401

See notes to basic financial statements

CHEROKEE NATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS) - GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2013 (Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property rentals	\$ 617	\$ 617	\$ 691	\$ 74
Motor fuel tax	7,730	7,435	7,615	180
Taxes, licenses and fees	20,008	20,008	20,490	482
Interest	130	830	874	44
Trust fund income	110	110	96	(14)
Dividends from component units	43,750	48,750	44,109	(4,641)
Other	3,977	4,374	3,302	(1,072)
Total revenues	<u>76,322</u>	<u>82,124</u>	<u>77,177</u>	<u>(4,947)</u>
Expenditures:				
Tribal government	33,627	34,696	20,278	(14,418)
Health services	9,537	17,532	16,474	(1,058)
Education services	22,258	30,015	25,849	(4,166)
Human services	4,845	5,346	4,968	(378)
Community services	20,778	24,699	15,079	(9,620)
Capital outlay	3,857	4,099	961	(3,138)
Total expenditures	<u>94,902</u>	<u>116,387</u>	<u>83,609</u>	<u>(32,778)</u>
Excess (deficiency) of revenues over expenditures	<u>(18,580)</u>	<u>(34,263)</u>	<u>(6,432)</u>	<u>27,831</u>
Other financing sources (uses):				
Transfers in	14,958	17,082	161	(16,921)
Transfers out	(16,102)	(30,729)	(14,418)	16,311
Total other financing sources (uses)	<u>(1,144)</u>	<u>(13,647)</u>	<u>(14,257)</u>	<u>(610)</u>
Net change in fund balance	(19,724)	(47,910)	(20,689)	27,221
Fund balance, October 1, 2012	85,930	85,930	85,930	-
Fund balance, September 30, 2013	<u>\$66,206</u>	<u>\$38,020</u>	<u>\$ 65,241</u>	<u>\$ 27,221</u>

CHEROKEE NATION

STATEMENT OF NET POSITION - PROPRIETARY FUNDS

SEPTEMBER 30, 2013

(Dollars in Thousands)

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Funds
	Title VI Loan Fund	Nonmajor Enterprise Funds	Total	
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 473	\$ 1,346	\$ 1,819	\$ 5
Accounts receivable, net	-	-	-	579
Due from other funds	-	104	104	23,211
Due from component units	16	62	78	148
Inventories	-	-	-	161
Notes receivable, current	1,202	1,019	2,221	-
Other current assets	-	2	2	467
Total current assets	<u>1,691</u>	<u>2,533</u>	<u>4,224</u>	<u>24,571</u>
Noncurrent assets:				
Restricted cash and cash equivalents	-	2,991	2,991	-
Long-term notes receivable	7,526	4,234	11,760	-
Capital assets, net	-	483	483	10,946
Total noncurrent assets	<u>7,526</u>	<u>7,708</u>	<u>15,234</u>	<u>10,946</u>
Total assets	<u>9,217</u>	<u>10,241</u>	<u>19,458</u>	<u>35,517</u>
LIABILITIES				
Current liabilities:				
Accrued liabilities	7	39	46	15,090
Current portion of long-term debt	1,201	62	1,263	-
Due to other funds	479	-	479	3,500
Due to component unit	-	69	69	253
Compensated absences	-	-	-	6,553
Other current liabilities	-	22	22	10,257
Total current liabilities	<u>1,687</u>	<u>192</u>	<u>1,879</u>	<u>35,653</u>
Noncurrent liabilities:				
Long-term debt	7,526	1,187	8,713	-
Other liabilities	-	2,775	2,775	-
Total noncurrent liabilities	<u>7,526</u>	<u>3,962</u>	<u>11,488</u>	<u>-</u>
Total liabilities	<u>9,213</u>	<u>4,154</u>	<u>13,367</u>	<u>35,653</u>
NET POSITION				
Net investment in capital assets	-	483	483	10,946
Restricted	-	279	279	-
Unrestricted (deficit)	4	5,325	5,329	(11,082)
Total net position	<u>\$ 4</u>	<u>\$ 6,087</u>	<u>6,091</u>	<u>\$ (136)</u>
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(66)	
Net position of business-type activities			<u>\$ 6,025</u>	

See notes to basic financial statements

CHEROKEE NATION

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013
 (Dollars in Thousands)**

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Funds
	Title VI Loan Fund	Nonmajor Enterprise Funds	Total	
Operating revenues:				
Property rentals	\$ -	\$ 505	\$ 505	\$ 7
Charges for services and goods	-	-	-	102,690
Interest income, loans	124	206	330	-
Other	-	39	39	195
Total operating revenues	124	750	874	102,892
Operating expenses:				
Salaries and wages	-	72	72	88,437
Other services and charges	-	443	443	16,346
Materials and supplies	-	37	37	1,726
Depreciation	-	49	49	1,040
Total operating expenses	-	601	601	107,549
Operating income (loss)	124	149	273	(4,657)
Nonoperating revenues (expenses):				
Interest income	1	1	2	-
Interest expense	(124)	(14)	(138)	(5)
Other	-	-	-	(19)
Net nonoperating revenues (expenses)	(123)	(13)	(136)	(24)
Income (loss) before transfers	1	136	137	(4,681)
Transfers in	-	194	194	3
Change in net position	1	330	331	(4,678)
Total net position - beginning	3	5,757		4,542
Total net position - ending	\$ 4	\$ 6,087		\$ (136)
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(1)	
Change in net position of business-type activities			\$ 330	

See notes to basic financial statements

CHEROKEE NATION

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(Dollars in Thousands)**

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Funds
	Title VI Loan Fund	Nonmajor Enterprise Funds	Total	
Cash flows from operating activities:				
Receipts from customers	\$ -	\$ 505	\$ 505	\$ 105,013
Payments to suppliers	(6)	(471)	(477)	(16,049)
Payments to employees	-	(72)	(72)	(89,085)
Internal activity - payments from other funds	(1,888)	(62)	(1,950)	2,424
Internal activity - payments to other funds	-	(1)	(1)	(1,416)
Internal activity - payments to component units	-	-	-	(82)
Internal activity - payments from component units	354	134	488	202
Interest received on loans	124	206	330	-
Other receipts	-	40	40	195
Net cash provided by (used for) operating activities	<u>(1,416)</u>	<u>279</u>	<u>(1,137)</u>	<u>1,202</u>
Cash flows from noncapital financing activities:				
Transfer from other funds	-	194	194	3
Principal paid on notes payable	(3,312)	(61)	(3,373)	-
Interest paid on notes payable	(124)	(14)	(138)	-
Net cash provided by (used for) noncapital financing activities	<u>(3,436)</u>	<u>119</u>	<u>(3,317)</u>	<u>3</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	-	-	-	(807)
Principal paid on capital debt	-	-	-	(392)
Interest paid on capital debt	-	-	-	(5)
Net cash provided by (used for) capital and related financing activities	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,204)</u>
Cash flows from investing activities:				
Interest received	1	1	2	-
Payments received on notes receivable	3,311	-	3,311	-
Increase in notes receivable, net	-	(848)	(848)	-
Net cash provided by (used for) investing activities	<u>3,312</u>	<u>(847)</u>	<u>2,465</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(1,540)	(449)	(1,989)	1
Cash and cash equivalents, October 1, 2012	<u>2,013</u>	<u>4,786</u>	<u>6,799</u>	<u>4</u>
Cash and cash equivalents, September 30, 2013	<u>\$ 473</u>	<u>\$ 4,337</u>	<u>\$ 4,810</u>	<u>\$ 5</u>
Cash and Cash Equivalents consist of:				
Unrestricted cash and cash equivalents	\$ 473	\$ 1,346	\$ 1,819	\$ 5
Restricted cash and cash equivalents	-	2,991	2,991	-
Total Cash and Cash Equivalents, September 30, 2013	<u>\$ 473</u>	<u>\$ 4,337</u>	<u>\$ 4,810</u>	<u>\$ 5</u>
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:				
Operating income (loss)	\$ 124	\$ 149	\$ 273	\$ (4,657)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	-	49	49	1,040
Change in assets and liabilities:				
Receivables, net	354	(1)	353	347
Inventories	-	-	-	(30)
Other current assets	-	-	-	(57)
Accounts and other payables	(1,894)	82	(1,812)	4,559
Net cash provided by (used for) operating activities	<u>\$ (1,416)</u>	<u>\$ 279</u>	<u>\$ (1,137)</u>	<u>\$ 1,202</u>

See notes to basic financial statements

CHEROKEE NATION

COMBINING STATEMENT OF NET POSITION - COMPONENT UNITS
SEPTEMBER 30, 2013
(Dollars in Thousands)

	Cherokee Nation Businesses, LLC (CNB)	Housing Authority of the Cherokee Nation (HACN)	Cherokee Nation Comprehensive Care Agency (CNCCA)	Cherokee Nation Home Health Services, Inc. (CNHHS)	Cherokee Nation Waste Management, LLC (CNWM)	Cherokee Nation Foundation (CNF)	Cherokee National Historical Society, Inc. (CNHS)	Total
ASSETS								
Current assets:								
Cash and cash equivalents	\$ 109,586	\$ 3,652	\$ 1,397	\$ 173	\$ 185	\$ 343	\$ 42	\$ 115,378
Restricted cash	3,433	-	-	-	25	143	222	3,823
Investments	-	16,207	-	-	-	345	844	17,396
Receivables, net	52,801	812	261	561	79	31	254	54,799
Mortgages receivable-Title VI	-	550	-	-	-	-	-	550
Due from primary government	(4,464)	4,917	(42)	-	(102)	-	-	309
Inventories	16,511	-	-	-	-	-	87	16,598
Other current assets	6,775	373	12	37	-	-	-	7,197
Total current assets	184,642	26,511	1,628	771	187	862	1,449	216,050
Noncurrent assets:								
Restricted investments	-	6,263	-	-	-	526	-	6,789
Notes receivable	1,292	373	-	-	-	-	-	1,665
Mortgages receivable-Title VI and partnerships	-	17,857	-	-	-	-	-	17,857
Other assets	270	1,944	-	-	-	667	219	3,100
Investment in partnerships/joint ventures	5,989	1,379	859	-	-	-	-	8,227
Capital assets, net	535,325	58,537	2,013	490	2,545	14	630	599,554
Total noncurrent assets	542,876	86,353	2,872	490	2,545	1,207	849	637,192
Total assets	727,518	112,864	4,500	1,261	2,732	2,069	2,298	853,242
LIABILITIES								
Current liabilities:								
Accounts payable and accrued liabilities	88,907	1,445	634	677	215	345	9	92,232
Unearned revenue	-	62	-	-	-	-	-	62
Current portion of notes payable	-	1,234	-	-	-	-	94	1,328
Current portion of long-term debt	-	-	44	26	-	-	-	70
Total current liabilities	88,907	2,741	678	703	215	345	103	93,692
Trust Liabilities								
Trust Liabilities	-	5,759	-	-	-	-	-	5,759
Notes Payable	-	8,847	-	-	-	-	-	8,847
Long-term debt	-	-	1,287	273	-	-	-	1,560
Total noncurrent liabilities	-	14,606	1,287	273	-	-	-	16,166
Total liabilities	88,907	17,347	1,965	976	215	345	103	109,858
NET POSITION								
Net investment in capital assets	531,113	57,184	682	191	2,494	14	536	592,214
Restricted for:								
Debt service	-	504	-	-	-	-	-	504
Construction	365	-	-	-	25	-	-	390
Investment in partnership/joint ventures	-	1,379	-	-	-	-	-	1,379
Program services	-	36,450	-	-	-	1,335	697	38,482
Unrestricted	107,133	-	1,853	94	(2)	375	962	110,415
Total net position	\$ 638,611	\$ 95,517	\$ 2,535	\$ 285	\$ 2,517	\$ 1,724	\$ 2,195	\$ 743,384

See notes to basic financial statements

CHEROKEE NATION

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -
COMPONENT UNITS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(Dollars in Thousands)**

	Cherokee Nation Businesses, LLC (CNB)	Housing Authority of the Cherokee Nation (HACN)	Cherokee Nation Comprehensive Care Agency (CNCCA)	Cherokee Nation Home Health Services, Inc. (CNHHS)	Cherokee Nation Waste Management, LLC (CNWM)	Cherokee Nation Foundation (CNF)	Cherokee National Historical Society, Inc. (CNHS)	Total
Operating revenues:								
Charges for services and goods	\$ 779,715	\$ 3,715	\$ 8,672	\$ 5,440	\$ 752	\$ -	\$ 47	\$ 798,341
Income from investments in joint ventures	2,171	-	567	-	-	-	-	2,738
Other	-	1,841	-	13	-	634	1,561	4,049
Total operating revenues	781,886	5,556	9,239	5,453	752	634	1,608	805,128
Operating expenses:								
Cost of sales/operations	285,686	7,275	-	-	-	-	-	292,961
Salaries and wages	226,653	7,930	2,837	3,645	477	-	-	241,542
Other services and charges	134,754	128	4,901	1,478	725	704	1,439	144,129
Depreciation and amortization	37,890	3,817	125	59	509	-	-	42,400
Total operating expenses	684,983	19,150	7,863	5,182	1,711	704	1,439	721,032
Operating income (loss)	96,903	(13,594)	1,376	271	(959)	(70)	169	84,096
Nonoperating revenues (expenses):								
Grant revenue	-	13,217	-	-	-	-	-	13,217
Interest/investment income	251	802	2	-	-	-	82	1,137
Interest expense	(432)	(210)	(88)	(30)	-	-	-	(760)
Gain on disposal of assets	-	420	-	-	-	-	-	420
Other, net	4,580	-	(631)	1	-	-	-	3,950
Net nonoperating revenues (expenses)	4,399	14,229	(717)	(29)	-	-	82	17,964
Net Income (loss) before dividends, capital grants and special item	101,302	635	659	242	(959)	(70)	251	102,060
Dividends to primary government	(44,108)	-	-	-	-	-	-	(44,108)
Capital grants from primary government	-	133	-	-	-	-	-	133
Capital grants to Cherokee Nation	(2,766)	-	-	-	-	-	-	(2,766)
Impairment of depletable assets	-	-	-	-	(3,971)	-	-	(3,971)
	(46,874)	133	-	-	(3,971)	-	-	(50,712)
Change in net position	54,428	768	659	242	(4,930)	(70)	251	51,348
Net position, beginning of year	584,183	94,749	1,876	43	7,447	1,794	1,944	692,036
Net position, end of year	\$ 638,611	\$ 95,517	\$ 2,535	\$ 285	\$ 2,517	\$ 1,724	\$ 2,195	\$ 743,384

See notes to basic financial statements

CHEROKEE NATION

RECAST OF THE COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
 COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED SEPTEMBER 30, 2013
 (Dollars in Thousands)

	Discretely Presented Component Units	Government-wide - Statement of Activities				
		Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Revenues
Operating revenues:						
Charges for services and goods	\$ 798,341	\$ -	\$ 798,341	\$ -	\$ -	\$ -
Income from investments in joint ventures	2,738	-	-	-	-	2,738
Other	4,049	-	4,049	-	-	-
Total operating revenues	805,128	-	802,390	-	-	2,738
Operating expenses:						
Cost of sales/operations	292,961	292,961	-	-	-	-
Salaries and wages	241,542	241,542	-	-	-	-
Other services and charges	144,129	144,129	-	-	-	-
Depreciation and amortization	42,400	42,400	-	-	-	-
Total operating expenses	721,032	721,032	-	-	-	-
Operating income (loss)	84,096	(721,032)	802,390	-	-	2,738
Nonoperating revenues (expenses):						
Grant revenue	13,217	-	-	13,217	-	-
Interest/investment income	1,137	-	-	-	-	1,137
Interest expense	(760)	(760)	-	-	-	-
Gain on disposal of assets	420	-	-	-	-	420
Other, net	3,950	3,950	-	-	-	-
Net nonoperating revenues (expenses)	17,964	3,190	-	13,217	-	1,557
Net Income (loss) before dividends, capital grants and special item	102,060	(717,842)	802,390	13,217	-	4,295
Dividends to primary government	(44,108)	(44,108)	-	-	-	-
Capital grants from primary government	133	-	-	-	133	-
Capital grants to Cherokee Nation	(2,766)	(2,766)	-	-	-	-
Impairment of depletable assets	(3,971)	-	-	-	-	(3,971)
Change in net position	51,348	(764,716)	802,390	13,217	133	324
Net position, beginning of year	692,036					
Net position, end of year	\$ 743,384	\$ (764,716)	\$ 802,390	\$ 13,217	\$ 133	\$ 324

See notes to basic financial statements

NOTES TO BASIC
FINANCIAL STATEMENTS



VINITA
HEALTH CENTER



2013
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

VINITA, OKLAHOMA

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General Information and Basis of Presentation

The basic financial statements of the Cherokee Nation (the Nation) have been prepared in conformity with accounting principles generally accepted (GAAP) in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting Entity

The Nation is a sovereign tribal government with Executive, Legislative, and Judicial Branches. The basic financial statements of the Nation present the reporting entity, which consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the Nation's basic financial statements to be misleading or incomplete. Accordingly, the accompanying basic financial statements reflect the financial position and the operations of the Nation received, disbursed, or in the custody of the Nation or the United States Department of Interior (DOI) and the United States Treasury, as its trustee, as well as all other funds and activities over which the Nation exercises financial accountability. The Nation's basic financial statements do not include the financial position or activities of various federal and state governmental agencies operating within tribal lands. The Nation determines its financial reporting entity in accordance with Governmental Accounting Standards Board Statement No. 14, *The Financial Reporting Entity*, as amended by GASB No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, and based upon that criterion, has included the following entities as component units within the Nation's basic financial statements.

Discretely Presented Component Units

The component units' column in the government-wide financial statements includes the financial data of the Nation's discretely presented component units. These discretely presented component units are reported in a separate column to emphasize that they are legally separate from the primary government. Part of the determination for presenting them as discretely presented component units is that they do not have substantially the same governing body as the primary government nor do they provide services entirely or almost entirely to the primary government or for the benefit of the primary government. The following component units are included in the reporting entity because the primary government is financially accountable for and is able to impose its will on these organizations.

Cherokee Nation Businesses, LLC (CNB) — CNB, a tribal limited liability company, was created June 16, 2004, to provide shared services and strategic coordination to the Nation's business entities, to diversify the Nation's business holdings, and act as a holding corporation for certain Nation investments in business enterprises. The Nation created CNB and is able to exert significant influence over CNB's activities as a result of its relationship to CNB and board member appointments. CNB and the companies it owns are managed through a board of directors appointed by the Principal Chief of the Nation and confirmed by the Cherokee Nation Tribal Council. As of September 30, 2013, CNB reported the following blended component units (pages 36 – 41):

Cherokee Nation Entertainment, LLC (CNE) — CNE is a tribal limited liability company organized under the laws of the Nation. The Nation conducts all of its gaming and entertainment activities through CNE. For reporting purposes, CNE is included as a blended component unit of CNB which is a discrete component unit of the Nation. CNE operates seven casinos, a horse racing facility with electronic gaming machines, two retail smoke shop facilities that include electronic gaming machines and other retail facilities including an additional smoke shop, a travel plaza, convenience stores and

gift shops. CNE's gaming and entertainment operations include food and beverage venues, hotels and motels, live entertainment venues and two 18-hole and one 9-hole golf course.

CNE has three of its own blended component units. CNE is the sole member owning 100% of the component units. The Chief Executive Officer of CNE is the designated manager of the component units. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, the component units are included as blended component units in CNE's financial statements. Details of the blended component units are as follows:

Will Rogers Downs, LLC (WRD) — WRD is a tribal limited liability company organized under the laws of the Nation created to own and operate a horse racing and gaming facility and ancillary activities on nontribal lands in Claremore, Oklahoma. WRD is a 236-acre racing complex, which includes 250 electronic games, simulcast horse racing, restaurants, a dance floor and a live entertainment stage. The racetrack is one-mile long and the training track is one-half mile long. The complex houses 13 barns with 440 livestock stalls, a covered, open-air grandstand with seating capacity for 2,700 individuals, a 60,000 square foot grandstand building, a 32,000 square foot exposition building and indoor and outdoor arenas. WRD holds a fall and spring race meet each year consisting of approximately 60 days of live racing. WRD is party to a license agreement with Kamgrounds of America (KOA) to utilize the KOA brand at its RV Park.

Cherokee Hotels, LLC (CHL) — CHL is a tribal limited liability company, created on May 23, 2006, under the laws of the Nation to own and operate a motel located in Roland, Oklahoma. The hotel in Roland is a 44 room hotel adjacent to the casino.

Cherry Springs Golf Club, Inc (CSGC) — CSGC is an Oklahoma corporation that owns and operates one 18-hole golf course in Tahlequah, Oklahoma.

Cherokee Nation Industries, LLC (CNI) — CNI is a tribal limited liability company established in 1969 to meet the need for business development and to generate revenue which helps the Nation and its members move toward economic self-sufficiency. CNI assists in facilitating and strengthening teaming and partnering opportunities through pooled business unit resources and shared corporate resources. Providing quality Cherokee employment opportunities that help preserve cultural identity is CNI's prime consideration. CNI has historically operated as a government contractor in the aerospace and defense sector of manufacturing and has diversified into the telecommunications, construction and services industries.

The Aerospace and Defense Manufacturing business unit of CNI and Cherokee Nation Distribution, LLC is a contract manufacturer and integrator of electromechanical assemblies. Aerospace and Defense Manufacturing has a workforce of approximately 300 skilled employees operating out of 70,000+ square feet (expandable to 120,000+ capacity) of manufacturing space primarily in Stilwell, Oklahoma. The core business is comprised of distribution, kitting and manufacturing of cable assemblies and wire harness assemblies, interconnect solutions, electronic racks, electric panels and enclosures, power distribution and "build to print" products. Drawing on its in-house capabilities and a select group of prequalified subcontractors, the business unit has a rich history of supplying products to the commercial and defense aerospace industries.

Centrally located in Pryor, Oklahoma, the Telecommunications business unit of CNI is an integrator of passive communication components for some of the largest businesses in the telecommunications industry. The business unit is a value-added "reseller" of telecommunications products consisting of fiber optic, fiber jumpers, fiber pass cards, network rack and value-added kitting as well as other products and services that are telecommunications related. The CNI Telecommunications business

unit has supplied the wired and wireless telecommunications markets for over 40 years with installation kits, warehousing and distribution services, final assembly and CISCO products, design and installation.

Today, a portfolio of 8(a), HUBZone, Small Disadvantaged Business (SDB) and Minority Business Enterprises (MBE) companies is utilized by CNI to leverage business opportunities and enhance financial opportunities. CNI has five of its own blended component units. These include:

Cherokee Nation Distribution, LLC (CND) — CND is a diversified company providing distribution services, office products, staffing services and logistics services. While distribution of electronic connectors and Just-in-Time (JIT) management services has been the foundation of their distribution services business, CND has diversified their capabilities to include project kitting, EDI capabilities, interconnect solutions and electromechanical integration.

The Office Products business unit of CND works with one of the largest Business-to-Business suppliers to deliver a wide variety of products anywhere in North America. Office Products offers utilization of Corporate Express' advance distribution centers to provide free delivery across the country. Office Products is capable of providing office products, facility supplies, document and print management and promotional supplies.

The Military Services group of CND provides support to U.S. government entities providing materials and services. The range of support provided includes supply of direct materials and spare parts, provision and management of facilities, direct labor (on-site, off-site and mobile), subcontract repair and return, technical services, import and export services, mobile equipment modification and other services as ordered by the customer. Military Services has management offices in Tulsa, Oklahoma and Huntsville, Alabama. Military Services currently manages off-site warehouse facilities in Huntsville, Alabama; El Paso, Texas; and Texarkana, Texas.

Cherokee Nation Red Wing, LLC (CNRW) — CNRW was acquired in February 2009 and reorganized as a limited liability company. CNRW is a contract manufacturer of integrated electromechanical assemblies. CNRW operates out of 15,000+ square feet of expandable manufacturing space on seven acres in Pryor, Oklahoma. The core business is comprised of kitting, manufacturing and program management of cable assemblies and wire harness assemblies, interconnect solutions, electronic racks, electric panels and enclosures, power distribution assemblies, sheet metal fabrication and assembly, CNC (Computer Numerical Controlled) machining and "build to print" products.

Drawing on its in-house capabilities and a select group of prequalified subcontractors, CNRW supplies products to the commercial and defense aerospace industries. Much of the aforementioned activity of CNRW was transitioned in 2012 to Cherokee Nation Metal Works, LLC (CNMW). In late 2011, CNRW was awarded a contract with the U.S. government to provide program management services in support of foreign military repair and return of aviation and missile system components for weapons platforms. CNRW has management offices in Tulsa, Oklahoma and Huntsville, Alabama supporting activities at Redstone Arsenal.

Cherokee Nation Metal Works, LLC (CNMW) — CNMW was formed in 2011 and manufactures fabricated details and assemblies for commercial and military aircraft as well as various missile and unmanned aerial vehicle (UAV) programs. Capabilities include computer numerical control machining, metal forming and manufacturing.

Cherokee Nation Office Solutions, LLC (CNOS) — CNOS was formed in 2008 and provides office, technology and facility solutions, products and services.

Cherokee Nation Aerospace & Defense, LLC (CNAD) — CNAD was formed in 2008 and manufactures air and land support products.

CND, CNRW and CNMW are for-profit limited liability companies owned by CNB. CND was created under the laws of the state of Oklahoma. CNRW, CNMW, CNOS and CNAD are tribal limited liability companies organized under the laws of the Nation. CND, CNRW, CNMW, CNOS and CNAD are blended with CNI because they are under common management and under the direction of the CNB board of directors.

Cherokee Nation Medical Services, LLC (CMS) and Cherokee Nation Health Services, LLC (CNHS LLC) — CMS and CNHS LLC, combined with the Staffing Services unit of CND, provide a wide range of services, including recruiting, credentialing and placement of clinical, administrative, technical and engineering personnel for private sector and government agencies, such as the Department of Defense and the Department of Energy. There are nearly 300 people from coast to coast in Army, Navy and Air Force facilities providing services in areas such as physicians, behavioral health, nursing, housekeeping, chiropractic, engineering, dentistry, technical research, radiation therapy and administrative functions.

Cherokee Services Group, LLC (CSG) — CSG was established in 2005 and is a leading provider of information technology and business support services. The company specializes in software and application services, network infrastructure services and business process services. CSG has received 8(a) certification from the U.S. Small Business Administration. Headquartered in Tulsa, Oklahoma, CSG has a regional office in Fort Collins, Colorado and 22 additional offices nationwide.

Cherokee Nation Technologies, LLC (CNT) — Since 2009, CNT has been serving more than 200 commercial and government clients with time-tested solutions that increase client effectiveness through the use of technology. CNT's expertise includes software and application services, network services and business process services. The company is headquartered in Tulsa, Oklahoma, with a regional office in Fort Collins, Colorado and client locations nationwide.

Cherokee Nation Technology Solutions, LLC (CNTS) — CNTS provides technical support services and project support personnel to its defense agency and civilian clients. CNTS specializes in locating hard to find candidates for rapid response requests throughout the country. It provides a tailored management approach for complex government programs and disciplines including information technology, science, engineering, construction, research and development, facilities management, program management and mission support.

Cherokee Nation Government Solutions, LLC (CNGS) — In business since 2011, CNGS provides the quality technical support services and project support personnel to support and supplement the mission, expertise and skill sets of federal, state and local government. With over 400 employees, CNGS locates specific candidates for rapid response requests in areas including science, engineering, construction, information technology, research and development, facilities management, program management and mission support.

Cherokee Nation Security and Defense, LLC (CNSD) — Created in 2009, CNSD provides state-of-the-art critical site infrastructure protection, security surveillance services, access control techniques and complete security integration for both government and commercial clients. The company handles projects such as civil construction, complex security and command center design.

Cherokee Nation Property Management, LLC (CNPM) — Formed in 2010, CNPM provides real estate management, development, leasing and due diligence services.

Cherokee Nation Construction Services, LLC (CNCS) — CNCS offers highly skilled, professional, technical and administrative support teams for government and commercial clients. CNCS helps manage construction projects through effective engineering, scheduling, safety and financial management controls.

Cherokee Nation Assurance, LLC (CNA) — Created in 2011, CNA is a technology solutions provider specializing in delivering information technology, management consulting program support and professional support services. CNA's full scope of computer and technology related services include enterprise architecture, application development, database administration, systems administration, networking, security compliance, configuration management, infrastructure services, video surveillance, access control and professional IT services.

Mobility Plus, LLC (MP) — On November 1, 2010, CNB completed the acquisition of 100% of the members' interest of MP, an Oklahoma limited liability company. MP specializes in the rental, sale and service of a wide variety of rehabilitation technology devices and respiratory products, durable medical equipment and medical supplies.

Cherokee Nation Support, Service and Solutions, LLC (CN3S) — Formed in 2012, CN3S is a tribal limited liability company formed to provide staffing services in the education industry.

Cherokee Nation Environmental Solutions, LLC (CNES) — Formed in 2013 to provide environmental services for both commercial and governmental clients.

Cherokee Nation Construction Resources, LLC (CNCR) — Formed in 2013 to construct healthcare facilities for the Nation.

Cherokee Nation Mission Solutions, LLC (CNMS) — Formed in 2013 to provide program management and health care staffing services primarily for government clients.

Cherokee Nation Management & Consulting, LLC (CNM&C) — Formed in 2013 to provide program and project management solutions for government clients.

CNB is the sole member of CMS, CNHS LLC, CSG, CNT, CNTS, CNGS, CNSD, CNPM, CNCS, CNA, MP, CN3S, CNES, CNCR, CNMS and CNM&C which are included as blended component units of CNB.

CNB, through its affiliates Cherokee Nation Management Corporation (CNMC), an Oklahoma Corporation, and CNB Economic Development Company, LLC (EDC) an Oklahoma limited liability company, participates in the New Markets Tax Credit (NMTC) Program established by Congress in 2000 to spur new or increased investments into operating businesses and real estate projects located in low-income communities. Under the NMTC Program, CNB was allocated the authority to issue \$60,000,000 of qualified equity investments (QEIs), which are funded through investments and loans from third parties. Third parties providing equity investments for the QEIs receive the right to claim, over a period of seven years, NMTC equivalent to a total of 39% of the total QEI (including loaned funds). As of September 30, 2013, \$35,000,000 of the allocation had been sub-allocated to an eligible project.

Under the terms of its allocation agreement, EDC was required to have sub-allocated at least 60% of its \$60,000,000 NMTC allocation prior to September 30, 2011. On March 20, 2012, the U.S. Treasury's Community Development Financial Institutions Fund (CDFI Fund) notified the company that its current allocations would not be affected due to the non-allocation of funds; however, the EDC was barred from applying for or receiving additional awards from the CDFI Fund through March 20, 2013.

CNB directly holds joint venture interests in Cherokee CRC, LLC and Aerospace S.E., Inc and accounts for the investments using the equity method. Details of the joint venture interests are described below:

Cherokee CRC, LLC (CCRC) — CCRC was formed in March 2005 in Tulsa, Oklahoma, by CNB (51% ownership) and an individual (49% ownership). The targeted business of CCRC, a Tribal-owned 8(a) firm is to engage in the business of providing services to customers in the businesses described as environmental consulting services, engineering services, remediation services, research and development in the physical, engineering and life sciences, testing laboratories, and for customers in homeland security under governmental contracts in which Section 8(a) status provides a competitive advantage. During the year ended September 30, 2013, CNB recognized earnings from CCRC totaling \$548,000 and received distributions of \$703,000.

Aerospace S.E., Inc. (APSE) — APSE was formed in 1987 in Huntsville, Alabama. On August 28, 2008, CNB acquired 75% of the stock of APSE, and APSE Holdings, LLC acquired 25%. APSE is a distributor of aerospace fasteners and a provider of supply chain services. APSE is headquartered in Huntsville and has offices in San Antonio, Texas and Wichita, Kansas. During the year ended September 30, 2013, CNB recognized earnings from APSE totaling \$1,652,000 and received no distributions.

Housing Authority of the Cherokee Nation of Oklahoma (HACN) — HACN was created under the provisions of the laws of the State of Oklahoma and provides affordable housing and other services to low income Native Americans within the boundaries of the Nation. The Commissioners of the Housing Authority are nominated by the Principal Chief and confirmed by the Tribal Council of the Cherokee Nation. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, HACN is included in the Nation's financial report as a discrete component unit. Separately issued financial statements for HACN may be obtained from HACN's corporate office.

Cherokee Affordable Housing, Inc. (CAH) — CAH is a non-profit 501(c)3 corporation organized under the laws of the State of Oklahoma created primarily to serve as the eligible 501(c)3 entity required to fill the position of general partner in the low income housing tax credit partnerships and related projects that have been developed by the HACN and a third party developer. The projects comprise 155 housing units and are managed by outside parties under management agreements as provided by the partnership agreements. CAH's financial activity is limited only to its role in the tax credit partnerships. The board of directors for CAH consists of the same board members of HACN. The president for CAH is the executive director of HACN. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, CAH is included as a blended component unit in the HACN's financial statements.

Cherokee Nation Comprehensive Care Agency (CNCCA) — CNCCA, a tribal governmental agency, was created to facilitate various Nation health care initiatives including the facilitation of joint ventures and other business related health activities. CNCCA is managed through a board of directors appointed by the Principal Chief of the Nation and approved by the Cherokee Nation Tribal Council. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, CNCCA is included in the Nation's financial report as a discrete component unit. Separately issued financial statements for CNCCA may be obtained from CNCCA's corporate office. CNCCA currently has two initiatives, which includes

the Program of All-Inclusive Care for the Elderly (PACE) and a joint venture, Cherokee Health Partners, LLC (CHP).

Program of All-Inclusive Care for the Elderly (PACE) — PACE features a comprehensive medical and social service delivery system using an interdisciplinary team approach in an adult day care center that is supplemented by in-home and referral services in accordance with participants' needs. The program is administered by Cherokee Elder Care (CEC) within the tribal jurisdictional area. The PACE program is financed primarily by Medicare and Medicaid.

Cherokee Health Partners, LLC (CHP) — CNCCA and the Tahlequah Hospital Authority (THA) entered into a joint venture on September 28, 2004, to create CHP which is 51% owned by CNCCA. CHP provides cardiac and other imaging services to residents of Tahlequah, Oklahoma and the surrounding area and is located in the Tahlequah City Hospital. CNCCA has recognized its proportionate share of CHP's earnings and distributions resulting in a carrying value of approximately \$859,000 for the joint venture at September 30, 2013.

CHP directly holds a joint venture interest in Tahlequah Diagnostic Imaging, LLC as described below:

Tahlequah Diagnostic Imaging, LLC (TDI) — TDI was established in December 2002, to provide MRI, CT, hyperbaric and other imaging equipment previously provided by the THA. CHP purchased a 20 percent ownership in TDI during their year ended June 30, 2011. In its general appeal to capture all the business formerly provided by the THA, TDI solicits to serve everyone in the community. CHP used the equity method to account for the joint venture investment in TDI. CHP has recognized its proportionate share of TDI's distribution of approximately \$89,000 for the joint venture at June 30, 2013.

Cherokee Nation Home Health Services, Inc. (CNHHS) — CNHHS, a tribal corporation, was organized for the purpose of engaging in home healthcare services. CNHHS is a discretely presented component unit of the Nation. Board members of CNHHS are appointed by the Nation's Principal Chief and approved by the Nation's Tribal Council. The CNHHS primarily earns revenues by providing home health, hospice and other services to residents of Adair, Cherokee, Delaware, Mayes, Muskogee, Sequoyah and Wagoner counties, Oklahoma, and the surrounding area.

Cherokee Nation Waste Management, LLC (CNWM) — CNWM is a tribal limited liability company organized in 2008 for the purpose of operating the Cherokee Nation Sanitary Landfill in Stilwell, Oklahoma, through an operating agreement with the Cherokee Nation. CNWM completed construction of a new waste cell and opened for operations in November of 2009. The CNWM Board of Directors are appointed by the Chief and confirmed by Tribal Council; therefore, for reporting purposes, CNWM is included as a discretely presented component unit of the Nation.

Cherokee Nation Foundation (CNF) — CNF, formerly doing business as Cherokee Nation Education Corporation was incorporated in 1998, as a nonprofit corporation under Title 18 of the Cherokee Nation Code Annotated and has been granted tax-exempt status under Section 501(c)3 of the Internal Revenue Code. CNF is organized exclusively for charitable and educational purposes to encourage and promote educational opportunities to enrolled adult and minor citizens of the Nation and any other federally recognized tribe, to promote and preserve the Cherokee language, culture and history of the Cherokee people, and to make distributions to corporations and individuals or on behalf of community groups. The board of directors and the Executive Director conducts a search for board members who have experience reflective of the mission of the organization. Once the board has approved a potential candidate to the board of directors, the nomination is submitted to the Chief and then Tribal Council for approval. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, CNF is included in the

Nation's financial report as a discrete component unit. All information included in the Nation's financial statements for CNF is as of and for the fiscal period ended December 31, 2012.

Cherokee National Historical Society, Inc (CNHS) — CNHS is an educational, cultural and charitable membership nonprofit organization originally incorporated under the laws of the State of Oklahoma in 1963 and is recognized as a 501(c)3 nonprofit organization by the Internal Revenue Service. The mission of CNHS is to preserve, promote and teach Cherokee history and culture. CNHS operates a museum displaying Native American artifacts and other historical and cultural exhibits, and a historically recreated Cherokee Village. The Tsa-La-Gi complex and the principal offices are located in Park Hill, Oklahoma. CNHS is governed by a Board of Trustees comprised of not less than twelve (12) or more than thirty (30) voting members. The Committee on Board Management is responsible for the comprehensive and objective research for potential Board members and will recommend for nomination those candidates when there are openings on the Board. Nominations are subject to approval of voting members of the Board of Trustees at any regular or special meeting of the governing board. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, CNHS is included in the Nation's financial report as a discrete component unit. All information included in the Nation's financial statements for CNHS is as of and for the fiscal period ended December 31, 2012. The reconciliation of the difference between the amount due to CNHS from the Nation at September 30, 2013 is approximately \$71,000.

Beginning in fiscal year 2006, the Nation, CNE and CNHS entered into an operations management Memorandum of Agreement (MOA). This MOA is renewable on an annual basis upon agreement by the CNHS Board and the Nation. This event is discussed more fully in Note 17.

The financial statements for the discretely presented proprietary component units are presented as part of the accompanying basic financial statements. Selected disclosures for the discretely presented component units have been included in these notes to the basic financial statements.

Blended Component Units

The Nation has one component unit whose operations are blended with the financial data of the primary government. There is no distinction between the data of the primary government and that of the component unit. The Nation's blended component unit is as follows:

Cherokee Nation Economic Development Trust Authority — The Economic Development Trust Authority (EDTA) is a Community Development Financial Institution, as certified by the U.S. Treasury Department. Cherokee Nation EDTA was created by Tribal Council Legislative Act 36-89 as a mechanism to promote economic development. Its mission is to provide opportunities for income generation through economic development, to provide loans for business creation/expansion, and to provide loans to qualified individuals whom have traditionally been denied through conventional lending sources. EDTA is a governmental organization created as a separate body whose Board of Directors is appointed by the Principal Chief and confirmed by the Tribal Council even though EDTA's governing board is not the same as the Tribal Council. The Nation has the ability to appoint, hire, reassign or dismiss the individuals responsible for management of the programs. EDTA almost exclusively benefits the Nation as its largest activity is the operation of an employee loan program for employees of the Nation and its component units. EDTA is presented as a proprietary fund in the accompanying financial statements.

Cherokee Nation law requires that all corporations, majority owned by the Nation, and incorporated under Cherokee Nation law pay a dividend based on net income. The dividend rate was 35% for fiscal year 2013. CNB's minimum dividend requirement is determined at the combined CNB reporting level which

has been implemented as the higher of CNB's or any of CNB's Component Units' Net Income. Dividends paid to the Nation and other related party transactions are discussed further in Note 17.

Government-wide Financial Statements

The government-wide financial statements provide operational accountability information for the Nation as an economic unit. The government-wide financial statements report the government's ability to maintain service levels and continue to meet its obligations as they come due. The statements include all governmental activities and all business-type activities of the primary government and its component units. Fiduciary funds and fiduciary-type component units are omitted from the government-wide financial statements. The Nation currently has no fiduciary funds.

Fund Financial Statements

The accounts of the Nation are organized on the basis of funds, each of which is considered to be an independent fiscal and accounting entity. The operations of each fund are accounted for within separate sets of self-balancing accounts, which comprise its assets, liabilities, fund balance/net position, revenues, expenditures/expenses, and transfers. The General Fund is always a major governmental fund. Other major funds are determined as funds whose revenues, expenditures/expenses, assets or liabilities are at least ten percent of the totals for all governmental or enterprise funds and at least five percent of the aggregate amount for all governmental and enterprise funds for the same item or funds designated as major at the discretion of the Nation. Funds not classified as a major fund are aggregated and presented in a single column in the fund financial statements. The Nation uses the following funds, grouped by fund type.

Governmental Funds

Governmental funds are those through which most governmental functions of the Nation are financed. The acquisition, use and balances of the Nation's expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds.

General Fund

The General Fund represents the operating activities of the tribal government. All financial resources not accounted for in other funds are reported in the General Fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of government grants or other specific revenue sources that are restricted by law or administrative action to finance particular functions or activities of the Nation. The following are the Nation's major Special Revenue Funds:

Self Governance-DOI-Roads was established to account for funds received from the DOI to expand the Nation's transportation activities such as planning, designing, constructing, and maintaining transportation facilities. Roads constructed with DOI funds are not capitalized by the Nation as they are transferred to other governmental agencies upon completion. These expenditures are generally presented as community service expenditures in the accompanying financial statements.

Department of Transportation was established to account for funds received from the Federal Highway Administration (FHWA), for and on behalf of the United States Department of Transportation (DOT), for use in the planning, designing, constructing and maintaining of highways, roads, bridges or transit facility programs. Roads constructed with DOT funds are not capitalized by the Nation as they are transferred to other governmental agencies upon completion. These expenditures are generally presented as community service expenditures in the accompanying financial statements.

Self Governance-DHHS was established to account for funds received under the Nation's Self Governance compact with the United States Department of Health and Human Services (DHHS). These funds are used to administer a number of programs under Indian Health Services (IHS) relating to health and human services including the operation of the Cherokee Nation W.W. Hastings Hospital in Tahlequah, Oklahoma and nine clinics located in various communities throughout the Nation's jurisdictional boundaries. These expenditures are generally presented as health and community services expenditures in the accompanying financial statements.

Housing and Urban Development was established to account for grant funds received from the Department of Housing and Urban Development (HUD) to improve living conditions and renovate homes of Indian residents. During fiscal year 2013, the majority of the program expenditures were in the form of subrecipient payments to the HACN, a discretely presented proprietary component unit of the Nation. These expenditures are generally presented as community service expenditures in the accompanying financial statements.

Capital Projects Funds

Capital Projects Funds are used to report resources that are used for major capital acquisition and construction separately from ongoing operational activities.

Debt Service Funds

Debt Service Funds are used to report resources that are set aside to meet current and future debt service requirements on general long-term debt.

Permanent Funds

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes supporting the Nation's programs. The Nation's Permanent Funds contain two endowments, both of which allow the expenditure of income for tuition and educational purposes, with the principal being unavailable for disbursement. The trust agreements state the distributions of income shall go to individuals one-quarter or more of Cherokee blood quantum. All fund balances from the endowments are either nonspendable or restricted.

The Sequoyah Endowment was established in fiscal year 1991 by the Louise K. Green-Matthews Grant in Environmental Science in the amount of \$134,000. It was established to foster and encourage Cherokee students of at least one-quarter blood quantum to engage in obtaining a graduate education in Environmental Science or Natural Sciences. The income from the trust is available to provide one to two grants annually. The amount of net appreciation on the investment of the Sequoyah Endowment is \$77,000 which is the available amount reflected in the fund balance.

The Glenn and Faye Gammon Education Trust was established in fiscal year 2001 by a willed contribution of \$291,000 to provide Cherokee higher education scholarships. In accordance with the will, income from the trust is used to provide tuition and related educational, travel and living expenses for Cherokee students with a blood quantum of one-quarter or more. All of the appreciated value of the investment in the Gammon Education Trust was expended.

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and nonmajor funds aggregated. A reconciliation is presented to summarize the differences in fund balances of the governmental fund financial statements and the net position of the governmental activities in the government-wide financial statements. These differences are further explained in Note 2 to the basic financial statements.

Proprietary Funds

Proprietary funds are used to account for the Nation's ongoing operations and activities which are similar to those often found in the private sector where the intent is that costs of providing goods and services be recovered through user charges. The proprietary funds maintained by the Nation are enterprise funds, internal service funds and discretely presented component units, which represent the activities of the various entities established by the Nation for income and job producing purposes.

The enterprise funds are proprietary funds that are used to report activities for which a fee is charged to external users. The Nation accounts for its Title VI Loan Fund, Tsa-La-Gi Apartments, Landfill Closure, and Economic Development Trust Authority (EDTA) activities in these funds. The Nation's only major enterprise fund is as follows:

The Title VI Loan Fund was established to account for borrowing and lending activities related to the United States Department of Housing and Urban Development Title VI loan agreement, the proceeds of which are obtained from federal government guaranteed bank financing and subsequently loaned to the HACN, a component unit of the Nation.

Internal service funds are used to report activities which provide goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. The Nation includes services such as internal leases, fringe pool, and indirect cost pool in these funds. Approximately 49% of the internal service funds' net position and substantially all activities are combined with the governmental activities in the government-wide financial statements. The fringe pool had a net position deficit at September 30, 2013 of \$9,089,000. The Nation plans to evaluate the cost-reimbursement allocation for the fringe pool as well as reduce the cost of certain fringe benefits. Note disclosures for governmental activities also include related amounts for the internal service funds.

See pages 36 - 43 for descriptions of discretely presented component units.

Enterprise and internal service fund financial statements include a statement of net position, a statement of revenues, expenses and changes in fund net position, and a statement of cash flows. The enterprise fund financial information is presented under the business-type activities columns. A column representing internal service funds is also presented in these statements, with the majority of the internal service funds' net position and activities combined with the governmental activities in the government-wide financial statements.

Measurement Focus

The measurement focus determines the accounting and financial reporting treatment applied to a fund. The governmental and business-type activities within the government-wide Statement of Net Position and Statement of Activities are presented using the economic resources measurement focus. The economic resources measurement focus meets the accounting objectives of determining net income, net position, and cash flows.

The fund financial statements use either the current financial resources measurement focus or the economic resources measurement focus as appropriate. Governmental funds use the current financial resources measurement focus. This measurement focus is based upon the receipt and disbursement of current available financial resources rather than upon net income. The measurement focus of the proprietary fund types, the flow of economic resources, is based upon determination of net income, net position and cash flows.

Basis of Accounting

The accrual basis of accounting is used throughout the government-wide financial statements; conversely, the financial statements of the General Fund, Special Revenue Funds, Capital Project Funds, Debt Service Funds and Permanent Funds have been prepared in accordance with the modified accrual basis of accounting, whereby revenues are recognized when considered both measurable and available to finance expenditures of the current period. The Nation accrues intergovernmental, property rentals, dividends, and tax revenues based upon this concept. Expenditures are generally recognized when the related fund liabilities are incurred and become payable in the current period. Proceeds of debt are reported as other financing sources, and principal and interest on long-term debt are recorded as expenditures when paid.

The financial statements of the Enterprise Funds, Internal Service Funds, and the proprietary component units have been prepared in accordance with the accrual basis of accounting. Accordingly, revenues are recorded when earned, and expenses and related liabilities are recorded when incurred.

Adoption of Accounting Principles

Effective October 1, 2012, the Nation implemented the following financial accounting and reporting standards issued by GASB:

Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34* — This statement provides guidance on information presented about the financial reporting entity and its component units and amends the criteria for blending in certain circumstances. The implementation of this standard also required that the Nation present its equity interest in discretely presented component units as an asset of the primary government and recognize the current year's increase or decrease of the equity interest in the statement of activities.

The discretely presented component units in which the Nation has equity interests include CNB, CNHHS and CNWM. These activities were previously presented only as discrete component units, and not reported as an asset within the primary government. The effects of this statement were applied by reporting the cumulative effect of the application as a restatement of beginning net position. The adoption resulted in the restatement (increase) of the government-wide governmental activities beginning net position of \$591,673,000 and recognition of an increase in equity in component units on the current year statement of activities of \$49,740,000. Had the new method of accounting for the equity interests in component units been applied retroactively, the previously reported 2012 change in net position for the Nation's governmental activities would have increased by approximately \$52,969,000. The adoption of GASB Statement No. 61 had no effect on the governmental fund financial statements.

Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* — This statement incorporates Financial Accounting Standard Board (FASB) pronouncements, Accounting Principles Board Opinions and AICPA Accounting Research Bulletins (ARB) that do not conflict with or contradict GASB pronouncements, and issued on or before November 30, 1989, into the GASB authoritative literature. It also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities that Use Proprietary Fund Accounting*, thereby eliminating the election provided in paragraph 7 of that statement. The adoption of GASB Statement No. 62 did not have a material effect on the financial statements in the current year and had no effect on previously issued financial statements.

Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* — This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. GASB Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net position by the government that is applicable to a future reporting period, and an acquisition of net position by the

government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities.

Statement No. 65, Items Previously Reported as Assets and Liabilities — This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources (expenses or expenditures) or inflows of resources (revenues), certain items that were previously reported as assets and liabilities. The adoption of GASB Statement No. 65 required debt issuance costs that were previously reported as assets to be shown as an expense. The effects of this statement were applied by reporting the cumulative effect of the application as a restatement of beginning net position or fund balance, as appropriate. The change resulted in the restatement (decrease) of the government-wide governmental activities beginning net position of (\$1,078,000). The adoption had no effect on the governmental fund financial statements.

As a result of the implementation of Statements No. 63 and 65, certain financial statements have been renamed and classifications of net position have been redefined. Under these standards, deferred outflows of resources represent a consumption of net position that applies to a future period which will not be recognized as an outflow of resources until that time, and deferred inflows of resources represents an acquisition of net position that applies to a future period which will not be recognized as an inflow until that time. The implementation of these new statements did result in the presentation of a deferred outflow of resources at September 30, 2013 of \$684,000.

Accounting Policies

The Nation's significant accounting policies related to the following basic financial statement categories are summarized below:

Cash and Cash Equivalents

The Nation considers all highly liquid investments in debt securities with maturities of three months or less when purchased to be cash equivalents. A "pooled cash" concept is used in maintaining certain cash accounts in the accounting records. Under this method, cash is pooled and each fund participating in the pool has equity in the pooled amount. Pooled cash accounts consist principally of interest-bearing and non-interest-bearing demand deposit accounts.

Restricted Cash and Cash Equivalents

Amounts represent certain bank account and investment balances restricted for specific purposes as described in Note 3.

Investments

The Nation reports investments at fair value. Fair value is determined using quoted market prices.

Accounts Receivable

Amounts represent revenue recognized but not yet received in the current period. Accounts receivable are presented in the statement of net position/balance sheet at net realizable value.

Inventories

Inventories of governmental funds are recorded as expenditures when purchased rather than when consumed except as noted below:

The Nation, through its participation with the Indian Health Service National Supply Service Center (NSSC), maintains an inventory of pharmaceutical drugs received from the DHHS. The value of the pharmaceuticals and supplies are reflected as an asset in the Nation's financial statements.

The Nation maintains an inventory of the food for disbursement by Cherokee Nation's Food Distribution program. Food acquisitions are initially recorded as inventory and as unearned revenue and are charged to expenditures as used, using the First In, First Out (FIFO) method. Food inventories are valued at the cost assigned to such food items by the granting agency.

CNB's inventories are stated at the lower of cost or market and consist primarily of raw materials and manufactured products, durable medical equipment, food and beverage items, gaming supplies, hotel supplies, smoke shop, convenience store and gift shop inventory. Costs of raw materials and manufactured products are determined using the specific identification method. Inventories are evaluated periodically, and reserves are established as needed to provide for reduced values attributed to slow moving and/or obsolete inventories. Costs of supplies are determined by an average cost method. Average costs are updated to the most recent purchase price each quarter. The average cost method used is not considered to be significantly different from the first-in, first-out method. Serialized durable medical equipment is recognized as cost of supplies over the contract life of the product.

As a result of the operation of the Title VI Loan program, the HACN has built or acquired a number of homes in various locations in anticipation of the expected demand for the homes as well as homes for specific homebuyers in accordance with an agreement with them. The amount in inventory for the year ended September 30, 2013 was \$1,587,000 and is classified as an "other asset" in the statements. This inventory is carried at the lower of cost or market value.

Other Current Assets

Amounts represent prepayments for supplies, pharmaceuticals and other expenditures.

Derivative Instruments

Derivative instruments are complex financial arrangements used to manage specific risks or to make investments. During the fiscal year 2010, the Nation entered into an interest rate swap agreement (derivative instrument) with a financial institution. See Note 10 for additional information concerning the interest rate swap agreement.

Equity Interests in Component Units

The Nation records its equity interests in component units that exist to enhance the government's ability to provide governmental services. As of September 30, 2013, the Nation held an equity interest in CNB, CNHHS and CNWM. Detailed financial statements for the entities can be found on pages 33 and 34.

Capital Assets

The Nation's accounting policies regarding capital assets such as land improvements, buildings, vehicles and equipment are that these assets, with an initial cost of \$5,000 or more, are to be capitalized and depreciated over their estimated useful lives. Purchased or constructed capital assets are valued at historical cost or estimated historical cost. Donated capital assets are recorded at fair value at the date of the donation. Title to certain property and buildings utilized by the Nation, such as Sequoyah High School, the Child Care Development Center, and other land is held by the federal government. Therefore, such assets are not reflected as capital assets in the accompanying financial statements. The Nation has chosen the straight-line depreciation method for its capital assets based on the estimated useful lives of the capital assets as follows:

<u>Class of Asset</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20-50 years
Equipment	3-20 years
Land Improvements	30 years

The Cherokee Nation has the ability to request that land owned by the Nation and its component units be placed into trust status with the United States of America in Trust for the Cherokee Nation (trust status). If land is accepted into trust status, the Nation and its component units have the ability to continue using the property. When land is placed into trust status, the title to the property is transferred to the Federal Government. Under GAAP, this land is removed from the books of the Nation or its component units since the Nation no longer has title to the land. At September 30, 2013, there were various parcels of land owned by the Nation and its component units that the Nation has requested to be placed into trust status. The cost basis of this land will be written off by the Nation when, and if, the property is accepted into trust status.

GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, provides for a two-step process of identifying potential impairments and testing for impairment. Asset impairment, as defined by GASB No. 42, is a significant, unexpected decline in the service utility of a capital asset. The service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization, which is the portion of the usable capacity currently being used. The events or changes in circumstances that lead to impairments are not considered normal and ordinary. At the time the capital asset was acquired, the event or change in circumstances would not have been expected to occur during the useful life of the capital asset. At September 30, 2013, the CNWM landfill site was reviewed by an independent third-party for total remaining capacity and remaining life of the landfill. The review determined that the landfill's capacity was significantly less than the original recorded capacity. See Note 7 for additional information concerning the impairment of capital assets.

Intangible Assets

GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, establishes accounting and financial reporting requirements for intangible assets, including recognition, initial measurement and amortization. CNE applied the provisions of GASB Statement No. 51 to the Hard Rock licensing agreement it entered into during fiscal year 2009 which resulted in the recognition of an intangible asset, which is reflected as a component of capital assets, depreciable net in the accompanying financial statements. See Note 18 for additional information concerning the Hard Rock licensing agreement. Intangible assets are stated at amortized cost. Amortization is computed using the straight-line method over the contractual life of the asset.

Deferred Outflow/Inflow of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Nation has one item that qualifies for reporting in this category which is the accumulated decrease in fair value of hedging derivative. The accumulated decrease in fair value of the hedging derivative results from the interest rate swap agreement having a negative fair value of \$684,000. More information can be found in Note 10.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflow of resources. This separate financial statement element, deferred inflow of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as

an inflow of resources (revenue) until that time. The Nation currently does not have any items that qualify for reporting in this category.

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for in the same manner as in the government-wide statements.

Unearned Revenues

The Nation is the recipient of grants from several different federal and state agencies. In some instances, the grants are advance funded. The Nation records these grants as unearned revenue until the funds are expended in accordance with the grant terms.

Landfill Closure and Postclosure Care Costs

The Nation, based on the cumulative amount of used capacity, accrues the currently estimated liability for closure and postclosure care costs for the Nation's landfill, which is now operated by CNWM LLC, a discretely presented component unit of the Nation. Such estimated costs include expected equipment and facility costs, costs of the final cover and postclosure care. The liability recorded by the Nation at September 30, 2013 is based upon the assumption that the Landfill will be operated by CNWM to its full designed capacity.

Taxes

The Nation is exempt from federal and state income taxes; consequently, no provision for income taxes is included in the accompanying financial statements for any fund.

Tsa-La-Gi Apartments are registered as tribal lands held in trust. As such, it is exempt from the payment of property taxes.

CNE, a blended component unit of CNB, pays a gaming tax based on certain gross revenues pursuant to provisions of the National Indian Gaming Regulatory Act. Amounts owed under the gaming tax are paid to the National Indian Gaming Commission (NIGC) on a quarterly basis and have been reflected within operating expenses in the Statement of Revenues, Expenses, and Changes in Net Position. Total payments for fiscal year 2013 were approximately \$345,000.

Compensated Absences

Vacation leave for the primary government is granted to all permanent full-time and eligible part-time employees. The annual amount of vacation time accrued varies, depending upon years of service, from 13 to 26 days for permanent full-time employees and from 6.5 to 13 days for permanent part-time employees. The maximum amount of vacation that may be accumulated and carried over to the following year is 30 days. Accumulated vacation leave vests, and the Nation is obligated to make payment, even if the employee terminates. Compensated absence liabilities are computed using the regular pay rates in effect at the statement of net position date plus an additional amount for compensation-related payments such as social security and medicare taxes compiled using rates in effect at that date.

Upon request from the employee and approval by the supervisor and Human Resources, the Cherokee Nation annually buys back designated amounts of accrued annual leave from Regular/Full Time and Regular/Part Time employees, subject to restrictions based on funding agency guidelines as well as fund availability. In fiscal year 2013, the Cherokee Nation bought back \$1,278,000 of accrued annual leave.

Net Position Classifications

Government-Wide Statements — Equity is classified as net position and displayed in three components:

Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to the acquisition, construction, or improvement of those assets.

Restricted net position consists of net position with constraints placed on the use either by external groups, such as grantors, creditors and external board of directors, or laws and regulations of other governments, or law through Tribal constitutional provisions or enabling legislation. The Nation classifies the equity interests in component units within this category as the operations of these entities are governed by separate, external boards of directors. It is the Nation's policy to use restricted net position prior to the use of unrestricted net position when both restricted and unrestricted net position are available for an expense which has been incurred.

Unrestricted net position consists of all other assets that do not meet the definition of "restricted" or "net investment in capital assets."

Fund Financial Statements — Governmental fund equity is classified as fund balance. Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily upon the extent to which the Nation is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The categories and their purposes are:

Nonspendable includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints, including inventories, prepaid assets and the corpus of permanent funds.

Restricted includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as grantors, donors, creditors or amounts constrained due to constitutional provisions or enabling legislation.

Committed includes fund balance amounts that are constrained for specific purposes that are internally imposed by the government through formal legislative action of the Tribal Council and does not lapse at year end. A committed fund balance constraint can only be established, modified or rescinded by passage of a Legislative Act (Law) by the Tribal Council.

Assigned includes fund balance amounts that are constrained by the Nation's intent to be used for specific purposes, that are neither restricted nor committed. The assignment of fund balance is authorized by a directive from the Nation's Treasurer or approval of Tribal Council Resolution.

Unassigned includes fund balance amounts within the General Fund which has not been classified within the above mentioned categories.

It is the Nation's policy to use restricted amounts first when both restricted and unrestricted fund balance is available unless prohibited by legal or contractual provisions. Additionally, the Nation uses committed, assigned, and lastly unassigned amounts of fund balance in that order when expenditures are made.

Revenue Recognition

The Nation considers revenue to be susceptible to accrual in the governmental funds as it becomes measurable and available, as defined under the modified accrual basis of accounting. The Nation generally defines the availability period for revenue recognition as received within ninety (90) days of

year end. The Nation's major revenue sources that meet this availability criterion are tax revenues and required dividends paid by component units.

Program Revenues

There are two classifications of programmatic revenues for the Nation, grant revenue and program revenue. Grant revenues are revenues from federal, state, and private grants. These revenues are recognized when all applicable eligibility requirements are met and are reported as intergovernmental revenues. The primary source of program revenue is earned income in connection with the operation of the Nation's W.W. Hastings Hospital, clinics and other health-related services, which are funded by the Department of Health and Human Services (DHHS) Self Governance Compact. Under the provisions of the Self Governance Agreement with DHHS, the Nation is required to expend this program income for purposes similar to those funded by the basic DHHS Self Governance Compact. There are no specific requirements designating when or in what order program and other self governance funds should be spent. Program income earned from clinic and other health-related services in the form of third party billed revenue during the year ended September 30, 2013 was approximately \$82 million.

Grants and contributions not restricted to specific programs

In the government-wide Statement of Activities, the Nation's Self Governance DOI compact is reported as General Revenues because under this compact the Nation has discretion in the application of these funds to various programs/functions administered under the general provisions of the compact.

Operating and Non-Operating Revenues and Expenses

In the Proprietary Funds and component units, operating revenues are those revenues produced as a result of providing services and producing and delivering goods, including all interest income on loan transactions and other events. Non-operating revenues are funds primarily provided by investing activities, such as financial institution interest income, gains on disposal of assets and insurance recoveries on property loss. Operating expenses are those expenses related to the production of revenue. Non-operating expenses are those expenses not directly related to the production of revenue, and include items such as interest expense and losses on disposal of assets.

Interest Income

Interest income is recorded as earned in the fund holding the interest bearing asset.

Interest Income - Self Governance Compacts

The Nation receives certain amounts of advance funding as a self governance compact tribe in three large self governance compacts with the DOI and DHHS. These funds are invested in interest earning assets until the funds are expended under the terms of the self governance compacts. The Nation need not refund the interest earnings under these compacts and is not directly accountable to the DOI or the DHHS for the expenditure of these interest earnings. The discretionary interest is recorded in the Self Governance funds but is allocated to other programmatic expenditures through the budgeting process.

Interest Income - Grants

The Nation receives certain amounts of advance funding in connection with four large grants: (1) NAHASDA, funded by HUD, (2) the Sequoyah High School Grant, which is funded by the DOI, (3) the Department of Transportation, funded through the FHWA for and on the behalf of the DOT and (4) PL-102-477 which is funded by the Department of Labor (DOL) and the DHHS through the DOI. The applicable legislation and regulations for each grant authorize the earning of interest on advance payments; the use of which is governed by the same.

Internal Activities

The Nation's policy for eliminating internal activities in the Government-Wide Statement of Activities is the look-back approach. This method prescribes that the internal service funds operate on a breakeven basis. The net profit or loss on an internal service fund is to be allocated to the government's programs/departments that benefited from the goods or services provided based on their proportionate benefit.

Indirect Costs

The Government-Wide Statement of Activities does not use a separate column to identify allocated indirect costs since the allocation is automatically calculated. Indirect costs are included in the program operating expenses reported for individual functions and activities in the fund statements.

The Nation's indirect cost plan utilizes a fixed rate with carryforward. To the extent that actual indirect cost expenses differ materially from indirect cost recoveries, the difference is recorded as deferred revenue (overrecovered) or a deferred charge (underrecovered) and reversed in the period the difference is used to adjust the indirect cost rate.

Budgets and Budgetary Accounting Policies

Title 62, §31-32 provides the legal level of budgetary control for the Cherokee Nation. The Executive and Finance Committee of the Council, upon direction of the Treasurer and with advisement from the Controller, shall formulate an annual appropriations bill. The bill shall contain the legal budgeted annual revenue and expenditures/expenses for the general fund and enterprise funds for the executive, legislative, and judicial branches of government. The functional level (e.g. health services) is used for reporting the legal level of budgetary control. The sources of revenue may be based upon estimates. The budgeted expenditures/expenses for these funds shall not exceed total estimated revenues and beginning fund balance and net position. The Executive and Finance Committee of the Council, upon direction of the Treasurer and with advisement from the Controller, shall be responsible for proposing amendments to the annual appropriations law based upon material changes in real or estimated revenues and expenditures/expenses that affect the total amounts budgeted. Management budgets are developed at the accounting unit level. Any amendments to the annual appropriations bill shall be presented to the full Tribal Council for consideration and passage. Any funds received by the Cherokee Nation, the use of which is determined by the granting or contracting agency (special revenue funds) shall be used only for those purposes and under those conditions for which the funds are made available and such funds are not subject to legal appropriation by the Tribal Council.

The basic financial statements contain a budget and actual comparative statement for the General Fund, a legally budgeted fund. A budgetary statement for Enterprise Funds, which are also legally budgeted, is included in the budgetary information section of Other Supplementary Information.

Budgets for the Nation are prepared on the same basis of accounting as the financial reports; therefore, no reconciliation is necessary.

Management Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, liabilities, deferred inflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reported period. Actual results could differ from those estimates.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Below is an explanation of certain differences between the governmental fund balance sheet and the government-wide statement of net position:

The governmental funds balance sheet includes a reconciliation of total fund balances of the governmental funds to the total net position of the governmental activities in the statement of net position. One element of that reconciliation explains that “capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds.” The details of this \$148,109,000 capital assets used in governmental activities are as follows (dollars in thousands):

Capital assets, net	\$ 159,055
Less: Internal service fund capital assets	<u>(10,946)</u>
Capital assets used in governmental activities	<u>\$ 148,109</u>

The next element of the reconciliation is the amount of \$4,672,000 which states “the assets recorded in government-wide financial statements that are not available to pay for current period expenditures, therefore, are not recorded in the funds.” (dollars in thousands)

Notes receivable, net - Self Help Housing	\$ 1,762
Other assets	<u>2,910</u>
Net adjustment to increase fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 4,672</u>

The final element of that reconciliation explains that “liabilities are not due and payable in the current period and, therefore, not reported in the funds.” The details of this \$36,217,000 difference are as follows (dollars in thousands):

Long-term debt	\$ 35,723
Accrued bond interest	253
Retainage payable	<u>241</u>
Net adjustment to decrease fund balance - total governmental funds to arrive at net position - governmental activities	<u>\$ 36,217</u>

A reconciliation of the net change in fund balance – total governmental funds reported in the statement of revenues, expenditures, and changes in fund balance for the governmental funds to the change in net position of governmental activities reported in the statement of activities is presented in the accompanying basic financial statements.

One element of this reconciliation explains “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.” The details of this \$9,790,000 difference are as follows (dollars in thousands):

Capital expenditures in governmental funds capitalized on government-wide financial statements	\$ 20,797
Depreciation expense	<u>(11,007)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 9,790</u>

Some expenses are reported in the Statement of Activities when incurred and presented as expenditures in the governmental funds when paid. The details of this \$1,145,000 difference are as follows (dollars in thousands):

Additional capital outlay expense and loss on disposal	\$ 754
Materials purchased for Self Help Housing loans	365
Bond interest expense	<u>26</u>
Net adjustment to increase changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 1,145</u>

3. DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, the Nation's deposits may not be returned. Cherokee Nation statute requires that funds be deposited in a financial institution insured either by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation. All balances in excess of insurance limits require pledged collateral from the financial institution. Deposits of the primary government are generally insured or covered by pledged collateral. At September 30, 2013, all deposits were insured or collateralized and held by various safe-keeping agents in the Nation's name. Component units' deposits of \$3,200,000 at September 30, 2013 were uninsured and uncollateralized.

Investments

The Nation's permissible investments include corporate obligations, United States Government obligations and Certificates of Deposit. For investments, custodial risk is the risk that in the event of the failure of the counterparty, the Nation will not be able to recover the value of its investments in the possession of an outside third party. The Nation's investment policy does not specifically address custodial credit risk; however, investments are held by third party custodians in the Nation's name.

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Nation manages interest rate risk by maintaining a balance of highly liquid investments and a "ladder" approach to long term investments. Funds are invested in blocks, normally of \$1,000,000 or greater, with maturities ranging from one to fifteen years. Any investment with a maturity date of over five years requires Tribal Council approval, with the exception of investments held by the U.S. Department of Interior's Office of Trust Fund Management (OTFM). Those investments are made based on the general investment strategy and guidance provided by the Nation.

CNB's investment policy restricts investment maturities to a period of five years or less. CNB and its component units' interest rate risk was minimized by the highly liquid nature of its deposits and investments at September 30, 2013.

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the Nation's policy to limit its investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSRO's). The Nation's investments in U.S. agencies and commercial paper were rated either AAA or AA+ by Standard & Poor's, AAA by Fitch Ratings and Aaa by Moody's Investors Service. The Nation's and CNB's mutual fund bond investments were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Nation's investment in a single issuer. The Nation's investment policy does not specifically address concentration of credit risk. Of the total primary government's investments, \$2,879,000, or 22%, is invested in Fannie Mae securities, \$2,669,000, or 20%, is invested in Federal Home Loan Mortgage Corporation and \$5,239,000 or 40%, is invested in Federal Home Loan Bank securities, and \$2,291,000 or 17%, is invested in Federal Agricultural Mortgage Corporation.

CNB and its component units' follow the investment policy of the Nation in determining investment choices. CNE had no investments in money market mutual funds at September 30, 2013.

Investments, categorized as to interest and credit risk, at September 30, 2013 were as follows (dollars in thousands):

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>					<u>Credit Rating Moody's/S&P</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
Primary Government:						
Money market mutual fund	\$ 1,815	\$ 1,815	\$ -	\$ -	\$ -	(1)
Repurchase agreements	339	339	-	-	-	N/R
U.S. Government sponsored entities	<u>13,094</u>	<u>105</u>	<u>-</u>	<u>-</u>	<u>12,989</u>	Aaa/AA+
Total Primary Government	<u>\$ 15,248</u>	<u>\$ 2,259</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,989</u>	
Component Units:						
Money market mutual funds	\$ 388	\$ 388	\$ -	\$ -	\$ -	(1)
Mutual funds	1,364	345	1,019			(1)
U.S. Government obligations fund	1,310	1,310	-	-	-	Aaa/AA+
U.S. Government sponsored entities	<u>1,749</u>	<u>1,247</u>	<u>502</u>	<u>-</u>	<u>-</u>	Aaa/AA+
Total Component Units	<u>\$ 4,811</u>	<u>\$ 3,290</u>	<u>\$ 1,521</u>	<u>\$ -</u>	<u>\$ -</u>	

(1) While these Money Market Mutual funds and Mutual funds do not have formal ratings, they are Governmental or Institutional type funds that are invested only in securities that have the highest short term rating from at least two NRSRO's.

A reconciliation of the investments for the Primary Government presented on the previous page to the investments as presented in the statement of net position follows (in thousands):

Investments as presented above:	\$ 15,248
Plus Certificates of Deposit reported as investments	298
Less Repurchase agreement reported as Restricted Cash & Cash Equivalents & Investments	(22)
Less Money market mutual fund and Repurchase agreements reported as Cash & Cash Equivalents & Investments	(2,132)
Less Government sponsored entities reported as Restricted Cash & Cash Equivalents & Investments	<u>(2,166)</u>
Total investments	<u>\$ 11,226</u>

A reconciliation of the investments for the Component Units presented on the previous page to the investments as presented in the statement of net position follows (dollars in thousands):

Investments as presented on previous page:	\$ 4,811
Plus Certificates of Deposit reported as investments	13,111
Less Money market and mutual funds reported as Restricted Cash & Cash Equivalents & Investments	<u>(526)</u>
Total investments	<u>\$ 17,396</u>

Restricted Cash, Cash Equivalents and Investments

Restricted cash, cash equivalents and investments and reserved cash at September 30, 2013 included the following (dollars in thousands):

Primary Government

Tenant security deposits held in trust, replacement reserves and mortgage escrow deposits for Tsa-La-Gi	\$ 279
Capital replacement, closure and postclosure care costs of the Landfill Closure fund	2,712
Balance in Motor Fuel Tax Education Trust	33,095
Scholarship funds	504
Arkansas River Drybed Lands Settlement	2,188
Balance of funds accumulated for Debt service payments	1,815
District Court escrow account	11
Kids Connection - Non-CN Grant to a Third Party	<u>15</u>
Total Primary Government restricted cash, cash equivalents and investments	<u>\$ 40,619</u>

Component Units

Escrow relating to the Title VI loan with a bank (see Note 8)	\$ 504
HACN's lease-to-own homeownership program monthly equity payments	5,759
Pari-mutuel horse racing activities funds	3,368
CNB cash related to federal grants	65
CNWM escrow for guarantee of payment on construction contracts	25
CNF endowment funds	669
CNHS endowment for capital improvements	<u>222</u>
Total Component Unit restricted cash, cash equivalents and investments	<u>\$ 10,612</u>

4. RECEIVABLES

Receivables for primary government at September 30, 2013 consisted of the following (dollars in thousands):

	Grants & Contracts Receivable	Accounts Receivable	Interest Receivable	Total	Notes Receivable
Governmental Receivables:					
General					
Motor fuel taxes	\$ -	\$ 2,041	\$ 62	\$ 2,103	\$ -
Other taxes	-	60	-	60	-
Other accounts receivable	-	426	-	426	-
Special Revenue Funds	4,756	10,631	90	15,477	28
Other - Internal Service Funds	-	579	-	579	-
Other - Governmental Activities	-	-	-	-	1,762
Receivables of Governmental Activities	<u>\$ 4,756</u>	<u>\$ 13,737</u>	<u>\$ 152</u>	<u>\$ 18,645</u>	<u>\$ 1,790</u>
Business-type Activities:					
Notes receivable, current	\$ -	\$ -	\$ -	\$ -	\$ 2,589
Long term notes receivable	-	-	-	-	11,760
	-	-	-	-	14,349
Less: Allowance for uncollectables	-	-	-	-	(368)
Receivables of Business-type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,981</u>

Accounts receivable for Special Revenue Funds include amounts receivable from Medicare, Medicaid and insurance companies for services provided to covered patients at the Nation's W.W. Hastings Hospital and clinics.

Receivables for component units at September 30, 2013 consisted of the following (dollars in thousands):

	Component Units							Total
	CNB	HACN	CNCCA	CNHHS	CNWM	CNF	CNHS	
Receivables:								
Accounts and other	<u>\$ 53,388</u>	<u>\$ 306</u>	<u>\$ 261</u>	<u>\$ 596</u>	<u>\$ 79</u>	<u>\$ 31</u>	<u>\$ 254</u>	<u>\$ 54,915</u>
Interest	-	506	-	-	-	-	-	506
Notes	<u>1,292</u>	<u>18,780</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>20,072</u>
	1,292	19,286	-	-	-	-	-	20,578
Less: Allowance for uncollectables	<u>(587)</u>	<u>-</u>	<u>-</u>	<u>(35)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(622)</u>
Receivables, net	<u>\$ 54,093</u>	<u>\$ 19,592</u>	<u>\$ 261</u>	<u>\$ 561</u>	<u>\$ 79</u>	<u>\$ 31</u>	<u>\$ 254</u>	<u>\$ 74,871</u>

Mortgages Receivable – Title VI

HACN has mortgages receivable at September 30, 2013 totaling \$18,407,000 from individuals who are participating in the Title VI loan program. Each of these loans is secured by a mortgage on the house sold by HACN. The loans have an interest rate of 4% and are payable over 30 years. No allowance has been

recorded as of September 30, 2013 as the Housing Authority believes the amounts to be collectable or if the houses are reacquired by HACN, the value of the home will equal or exceed the balance of the loan. At September 30, 2013, the current and non-current portions of these mortgages receivable were \$550,000 and \$17,857,000, respectively. The Nation has a related note receivable from HACN recorded in its Business-Type Activities.

5. INTERFUND TRANSFERS AND BALANCES

Interfund transfers for the year ended September 30, 2013 consisted of the following (dollars in thousands):

Category and Fund	Transfers from Other Funds	Transfers to Other Funds
Governmental Activities:		
Governmental Funds:		
General	\$ 161	\$ (14,418)
Self Governance DOI Roads	-	(65)
Department of Transportation	-	(59)
Self Governance DHHS	-	(4,206)
Housing & Urban Development	85	-
Capital Projects Fund	14,954	-
Nonmajor Governmental Funds	4,321	(970)
Total Governmental Funds	19,521	(19,718)
Internal Service Funds	3	-
Total Governmental Activities	19,524	(19,718)
Business-type Activities:		
Proprietary Funds:		
Nonmajor Enterprise Funds	194	-
Total Proprietary Funds	194	-
Total Business-type Activities	194	-
Total Primary Government	\$ 19,718	\$ (19,718)
Reconciliation to Government-Wide Statement of Activities:		
Governmental Activities:		
Transfers In	\$ 19,524	
Transfers Out	(19,718)	
Net Transfer Governmental Activities		\$ (194)
Business-type Activities:		
Transfers In	\$ 194	
Transfers Out	-	
Net Transfer Business-type Activities		\$ 194

Transfers are generally used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them or (2) move unrestricted revenues

collected in the General Fund, or other funds, to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund balances at September 30, 2013 consisted of the following (dollars in thousands):

Category and Fund	Due from Other Funds	Due to Other Funds
Governmental Activities:		
Governmental Funds:		
General	\$ 7,826	\$ 22,024
Self Governance DOI Roads	-	2,228
Department of Transportation	860	-
Self Governance DHHS	-	17,307
Housing & Urban Development	1,127	-
Capital Projects Fund	19,818	-
Nonmajor Governmental Funds	2,101	9,509
Total Governmental Funds	31,732	51,068
Internal Service Funds	23,211	3,500
Total Governmental Activities	54,943	54,568
Business-type Activities:		
Proprietary Funds:		
Title VI Loan Fund	-	479
Nonmajor Enterprise Funds	104	-
Total Proprietary Funds	104	479
Total Business-type Activities	104	479
Total Primary Government	\$ 55,047	\$ 55,047
Reconciliation to Government-Wide Statement of Net Position:		
Governmental Activities:		
Due from Other Funds	\$ 54,943	
Due to Other Funds	(54,568)	
Net Internal Balances		\$ 375
Business-type Activities:		
Due from Other Funds	\$ 104	
Due to Other Funds	(479)	
Net Internal Balances		\$ (375)

Interfund balances result from the time lag between the dates that interfund goods and services are provided or reimbursable expenditures occur, the dates the transactions are recorded in the accounting system, and the date payments between funds are made.

6. INVENTORIES

The Nation's inventories were comprised of the following at September 30, 2013 (dollars in thousands):

	Governmental Funds	Internal Service Funds	Component Units
Finished goods and raw materials	\$ -	\$ -	\$ 21,772
Food for distribution	799	-	-
Pharmaceuticals and supplies	<u>2,666</u>	<u>161</u>	<u>87</u>
	3,465	161	21,859
Less inventory reserves	<u>-</u>	<u>-</u>	<u>(5,261)</u>
Total inventories	<u>\$ 3,465</u>	<u>\$ 161</u>	<u>\$ 16,598</u>

The majority of the component unit inventory at September 30, 2013 relates to CNI, a component unit of CNB, engaged in the production, assembly, and repair of electronic component parts for the telecommunications and other industries.

7. CAPITAL ASSETS

A summary of capital assets activity by major class, for the year ended September 30, 2013 follows (dollars in thousands):

Governmental Activities

	Balance, September 30, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance, September 30, <u>2013</u>
Activity by Major Class				
Capital assets, not being depreciated:				
Land	\$ 16,027	\$ 2,444	\$ -	\$ 18,471
Construction in process	34,721	5,006	(31,191)	8,536
Total capital assets, not being depreciated	<u>50,748</u>	<u>7,450</u>	<u>(31,191)</u>	<u>27,007</u>
Capital assets being depreciated:				
Buildings and improvements	93,744	40,518	(25)	134,237
Equipment	54,771	6,928	(1,571)	60,128
Land improvements	806	13	-	819
Total capital assets being depreciated	<u>149,321</u>	<u>47,459</u>	<u>(1,596)</u>	<u>195,184</u>
Less accumulated depreciation for:				
Buildings and improvements	(20,353)	(3,556)	5	(23,904)
Equipment	(32,952)	(7,416)	1,326	(39,042)
Land improvements	(155)	(35)	-	(190)
Total accumulated depreciation	<u>(53,460)</u>	<u>(11,007)</u>	<u>1,331</u>	<u>(63,136)</u>
Total capital assets being depreciated, net	<u>95,861</u>	<u>36,452</u>	<u>(265)</u>	<u>132,048</u>
Activity by major class capital assets, net	<u>\$ 146,609</u>	<u>\$ 43,902</u>	<u>\$ (31,456)</u>	<u>\$ 159,055</u>

Depreciation expense was charged to functions as follows:

Governmental activities:

Tribal Government	\$ 2,264
Health Services	7,013
Education Services	498
Human Services	329
Community Services	<u>903</u>
Total Governmental activities depreciation expense	<u>\$ 11,007</u>

Business-type Activities

	Balance, September 30, <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	Balance, September 30, <u>2013</u>
Capital assets, not being depreciated - Land	\$ 81	\$ -	\$ -	\$ 81
Capital assets being depreciated:				
Buildings and improvements	<u>1,888</u>	<u>-</u>	<u>-</u>	<u>1,888</u>
Total capital assets being depreciated	<u>1,888</u>	<u>-</u>	<u>-</u>	<u>1,888</u>
Less accumulated depreciation for:				
Buildings and improvements	<u>(1,437)</u>	<u>(49)</u>	<u>-</u>	<u>(1,486)</u>
Total accumulated depreciation	<u>(1,437)</u>	<u>(49)</u>	<u>-</u>	<u>(1,486)</u>
Total capital assets being depreciated, net	<u>451</u>	<u>(49)</u>	<u>-</u>	<u>402</u>
Business-type activities capital assets, net	<u>\$ 532</u>	<u>\$ (49)</u>	<u>\$ -</u>	<u>\$ 483</u>

<u>Component Unit Activities</u>	<u>Balance,</u> <u>September 30,</u> <u>2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance,</u> <u>September 30,</u> <u>2013</u>
CNB and HACN:				
Capital assets, not being depreciated:				
Land	\$ 41,704	\$ 10,353	\$ (2,930)	\$ 49,127
Construction in progress	50,461	55,018	(88,447)	17,032
Artwork	<u>2,179</u>	<u>1</u>	<u>-</u>	<u>2,180</u>
Total capital assets not being depreciated	<u>94,344</u>	<u>65,372</u>	<u>(91,377)</u>	<u>68,339</u>
Capital assets being depreciated:				
Buildings, improvements and other	531,013	71,867	(4,277)	598,603
Machinery and equipment	<u>204,477</u>	<u>22,358</u>	<u>(6,756)</u>	<u>220,079</u>
Total capital assets being depreciated	<u>735,490</u>	<u>94,225</u>	<u>(11,033)</u>	<u>818,682</u>
Less accumulated depreciation for:				
Buildings and improvements	(132,404)	(20,821)	3,312	(149,913)
Machinery and equipment	<u>(129,108)</u>	<u>(20,883)</u>	<u>6,745</u>	<u>(143,246)</u>
Total accumulated depreciation	<u>(261,512)</u>	<u>(41,704)</u>	<u>10,057</u>	<u>(293,159)</u>
Total capital assets being depreciated, net	<u>473,978</u>	<u>52,521</u>	<u>(976)</u>	<u>525,523</u>
CNB and HACN activities capital assets–net	<u>568,322</u>	<u>117,893</u>	<u>(92,353)</u>	<u>593,862</u>
Other Component Unit activities – CNHHS, CNCCA, CNWM, CNF and CNHS capital assets, net	<u>9,961</u>	<u>(298)</u>	<u>(3,971)</u>	<u>5,692</u>
Total of the Component Unit activities–capital assets, net	<u>\$ 578,283</u>	<u>\$ 117,595</u>	<u>\$ (96,324)</u>	<u>\$ 599,554</u>

Impaired Capital Assets

In fiscal year 2013, during the course of CNWM’s review of its estimated remaining capacity available for disposal at the CNWM landfill site. CNWM estimated remaining capacity of the landfill site to be less than its carrying value, which resulted in an impairment loss of \$3,971,000. In accordance with GASB No. 42, this loss reflects the amount by which the carrying value of the depletable asset exceeds the estimated remaining value determined by using the service units approach. The impairment is presented in the Nation’s financial statements as a special item on pages 25, 34 and 35.

8. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2013 was as follows (dollars in thousands):

<u>Governmental Activities</u>	Balance, September 30,			Balance, September 30,		
	<u>2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>2013</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Notes Payable						
3.7% Note payable to Bank of America. See (1) below.	\$ 392	\$ -	\$ (392)	\$ -	\$ -	\$ -
Note payable to BOK in fixed principal payments. See (2) below.	20,533	-	(1,600)	18,933	1,600	17,333
Series 2006 Bonds payable with a pledge of revenues from Health Care System with semi-annual interest payments and annual principal payment. Coupon rate ranges from 4.10% to 4.6%. Payments began December 2007 and bonds mature beginning December 2011. See (3) below.	18,585	-	(1,795)	16,790	1,875	14,915
Capital Leases						
Capital leases payable to BOKF Equipment Finance, Inc. with monthly payments of \$26 including interest of 3.55% due in March 2013. Secured by related equipment	130	-	(130)	-	-	-
Total long-term debt	<u>\$ 39,640</u>	<u>\$ -</u>	<u>\$ (3,917)</u>	<u>\$ 35,723</u>	<u>\$ 3,475</u>	<u>\$ 32,248</u>

- (1) In May 2003, the Nation entered into a \$5,000,000 financing agreement with a bank to fund capital improvement projects and to re-finance the 1992 Series Revenue Bonds. This note bears interest at 3.7% per annum, in monthly principal and interest installments of \$49,913 with final payment due in May 2013. This note was paid off in April 2013.
- (2) This note, along with additional program income transfers from the SG DHHS Fund, provided the funding for the construction of a new clinic in Vinita. The revenues and expenditures relating to the construction of the new Vinita Clinic were accounted for in the Capital Projects Fund. This note is a 15 year note with final payment due in July 2025 with fixed monthly principal payments of \$133,000 and varying monthly interest payments, secured by cash or investments at Bank of Oklahoma. The variable rate is based on 75% of 30 day LIBOR plus 95 basis points if the note is secured by certificates of deposit held by the bank or 115 basis points if the note is secured by U.S. Treasuries. At September 30, 2013, the Nation owned a \$26,339,000 certificate of deposit, which includes \$2,339,000 of interest earned on the certificate of deposit. This certificate of deposit is reported in the Nation's General Fund and is used, in part, as collateral on the note, which had a balance of \$18,933,000 at September 30, 2013. The Nation entered into a swap agreement with Bank of Oklahoma to fix the interest rate on the \$24 million loan. The swap agreement fixes the rate at 3.16%. The agreement covers the entire 15 year term. There are potential gains and losses associated with the swap agreement should Cherokee Nation choose an early payoff on the loan. See Note 10 for additional details.

The construction of the new Vinita Clinic was completed in fiscal year 2012 and is being operated in accordance with a Joint Venture Construction Program Agreement (JVCP) between the Nation and the Indian Health Service (IHS), Department of Health and Human Services dated May 14, 2010. The Nation planned, designed, constructed, equipped, leases and operates the Vinita Clinic according to IHS specifications. The IHS provides funds to staff and equip the facility in accordance with the joint venture agreement and the self-governance compact. The JVCP agreement provided that the Nation was responsible for constructing the Vinita Clinic. Upon completion of the Vinita Clinic, the IHS entered into a “no-cost lease” with the Nation. The no-cost lease is not intended to convey any real property interest in the Vinita Clinic or the land it is located on but rather, the IHS is merely providing the funding for staffing and equipping the Vinita Clinic. Pursuant to the terms of the JVCP Agreement, the Self Governance Compact and the no-cost lease, the Nation will be the sole operator of the Vinita Clinic and all employees of the Vinita Clinic will be employees of the Nation. The IHS will not directly provide services at the Vinita Clinic. IHS funding for the operation of the Vinita Clinic will be provided to the Nation through the Funding Agreements.

- (3) The Nation issued their \$30,000,000 Series 2006 Health Care System Bonds on December 21, 2006. The bonds were issued to fund construction of new clinics in Muskogee and Nowata and an administrative annex for the Redbird Smith clinic in Sallisaw. The bonds carry a coupon rate of 4.1 - 4.6% and mature in three phases that began in 2011. The bonds are secured by a pledge of the health services third party revenue and are a general obligation of the Nation. A monthly debt service reserve of approximately \$219,000 is transferred to the bond trustee, Bank of Oklahoma Trust Services. The bonds were insured through ACA Capital and carried a Standard & Poor’s “A” rating and a Fitch BBB- rating. The underwriter for the bond issuance was BOSCO, Inc., a subsidiary of BOK Financial Corporation.

The balance of long-term debt for business-type activities at September 30, 2013 was \$9,976,000. The balance of Long-Term Debt for Component Units at September 30, 2013 was \$11,805,000. Long-term debt in the business-type activities and component units at September 30, 2013 consisted of the following (dollars in thousands):

<u>Business-type Activities</u>	Balance, September 30,			Balance, September 30,		
	<u>2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>2013</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Title VI Loan Fund						
Note payable to bank in fixed principal payments. See (1)	\$ 12,039	\$ -	\$ (3,312)	\$ 8,727	\$ 1,202	\$ 7,525
Economic Development Trust Authority						
Notes payable to the Department of Agriculture in variable annual installments including interest of 1% annual, with final payment due August 2034.	1,310	-	(61)	1,249	61	1,188
Total	\$ 13,349	\$ -	\$ (3,373)	\$ 9,976	\$ 1,263	\$ 8,713

- (1) In July 2002, the Nation entered into a \$50,000,000 loan agreement, 95% guaranteed by United States Department of Housing and Urban Development. The loan proceeds were divided into two separate “pools” which carry different interest rates over the life of the loan. Pool A was paid off in July 2013. Pool B, with a balance at September 30, 2013 of \$8,727,000 carries a variable interest rate, reset monthly, and derived from the 30 day LIBOR + 70 basis points, which at September 30, 2013 was 0.88%. Pool B requires monthly principal payments of \$100,150 through February 1, 2022, plus

interest. The loan proceeds were transferred to the HACN under a loan agreement between the Nation and the HACN to provide funding for construction or acquisition of single-family homes within the Nation's fourteen county jurisdictional area. The HACN provided construction and acquisition of housing for eligible participants using Title VI loan proceeds "drawn down" through the Nation. As part of its participation in the Title VI loan, the HACN was required to deposit securities in escrow with JP Morgan Chase, formerly Bank One, in an amount equal to five percent of the total loan balance, or approximately \$436,000. These securities are being pledged as collateral for the Title VI loan to cover the portion of the loan balance not guaranteed by HUD. The interest and dividends generated on these securities remains the property of the HACN. As collateral for the Title VI loan, the Nation has pledged all current and future grants for which the borrower becomes eligible under NAHASDA as well as program income directly generated from the use of the loan proceeds, program income derived from the sale or lease of real property acquired, rehabilitated or constructed with loan proceeds, and the securities deposited to the Pledge Account. Any program income generated from the above is required to be deposited into a "Loan Repayment Account" to serve as an additional source of payment of principal and interest related to the Title VI loan. The Nation's note receivable from HACN at September 30, 2013 was \$8,728,000, of which, \$1,202,000 is included in notes receivable current and \$7,526,000 is reflected as long term notes receivable in the government-wide statement of net position as well as at the Proprietary Fund level.

<u>Component Units</u>	<u>Balance,</u>			<u>Balance,</u>		
	<u>September 30,</u>			<u>September 30,</u>	<u>Current</u>	<u>Long-Term</u>
	<u>2012</u>	<u>Additions</u>	<u>Reductions</u>	<u>2013</u>	<u>Portion</u>	<u>Portion</u>
Housing Authority of the Cherokee Nation ("HACN")						
Note payable to Cherokee Nation in fixed monthly principal payments of \$155 with interest calculated on the outstanding balance each month. See (1)	\$ 12,039	\$ -	\$ (3,311)	\$ 8,728	\$ 1,202	\$ 7,526
Note payable to bank in fixed monthly payments of \$2 including principal and interest. Interest calculated at 6.75% annual with final final payment due February 2021. See (2)	101	-	(10)	91	10	81
Assumable Mortgage Program (*AMP*) - loans for use in the purchase of homes provided to program participants. Interest rates vary from 6.25% to 7% and are payable in monthly installments over thirty (30) years. See (3)	1,282	-	(20)	1,262	22	1,240
Cherokee Nation Comprehensive Care Agency ("CNCCA")						
Note payable to CNB to finance building construction and secured by same at 6.5%, principal and interest payments of \$9 due monthly beginning May 2008 and ending April 2018, at which time any remaining principal is due and payable.	1,314	-	(21)	1,293	24	1,269
Notes payables to finance vehicles secured by the vehicles at various principal and interest of \$1 due monthly from July 2008 and ending February 2016.	77	-	(39)	38	20	18
Cherokee Nation Home Health Service ("CNHHS")						
Bank note payable dated June 7, 2006 in the original amount of \$371 has monthly payments of \$3, including interest at 5.25% and matures June 7, 2017, secured by a building and land. See (4)	303	-	(16)	287	16	271
Bank note payable dated December 5, 2007 in the original amount of \$54 has monthly payments of \$1, including interest at 8% and matures November 8, 2017 secured by a building.	20	-	(8)	12	10	2
Bank note payable dated October 14, 2010, in the original amount of \$201 has montly payments of \$6, including interest at 5.5%, maturing September 30, 2013. The note was used to refinance bank notes and is secured by certain equipment.	71	-	(71)	-	-	-
Cherokee National Historical Society, Inc ("CNHS")						
Bank note payable dated August 12, 2010 in the original amount of \$130 and was due August 12, 2013. Interest is variable equal to BOK Financial Corp Index.	94	-	-	94	94	-
Total	\$ 15,301	\$ -	\$ (3,496)	\$ 11,805	\$ 1,398	\$ 10,407

(1) HACN, during fiscal year 2013, did not receive any loan advances for the Title VI program. This resulted in a cumulative amount of funds drawn on the available loan funds of \$33,231,000. The loan is divided into two separate "pools" which carry different interest rates over the life of the loan. Pool A, whose balance was paid off at September 30, 2013 carried an interest rate of 6.7%. Pool B, whose balance at September 30, 2013 was \$8,727,000 carries a variable interest rate reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2013 was 0.87%. Pool A was repayable in monthly principal payments of \$54,000 plus interest. Pool B principal payments of \$100,000 began March of 2005 and are scheduled through June 1, 2022, plus interest. During fiscal year 2013, HACN made total principal payments on Pool A of \$821,000 and on Pool B of \$2,490,000. As collateral for the loan, HACN has pledged all current and future grants, for which the borrower becomes eligible under NAHASDA, as well as income directly generated from the use of loan proceeds, program income derived from the sale or lease of real property acquired, rehabilitated or constructed with loan proceeds, and the securities deposited to the pledge account. Any program income generated from the above is required to be deposited into a "Loan Repayment Account" to serve as an additional source for payment of principal and interest related to the Title VI loan.

- (2) During fiscal year 2006, HACN borrowed \$152,000 for its costs related to the Claremore QuadPlex project. The loan is repaid in monthly payments, beginning February 1, 2006, of \$1,300 including principal and interest. The loan carries an interest rate of 6.75%. The final payment will be made on February 1, 2021. At September 30, 2013 the loan balance was \$91,000.
- (3) During fiscal year 2007, HACN began its Assumable Mortgage Program. In fiscal year 2013, HACN did not take out any new loans for use in the purchase of 25 total homes provided to program participants. Interest rates on the loans vary from 5.50% to 7.125% and are payable in monthly installments over thirty years. At September 30, 2013, the loan balance was \$1,262,000.
- (4) CNHHS renewed a promissory note and security agreement with a bank in June 2006 totaling \$371,261 with monthly payments of \$3,000, including interest at 7%, and an original maturity date of June 7, 2009. During 2009, the note agreement was extended an additional 35 monthly payments of \$3,000, including interest at 7.0% and a balloon payment of all outstanding principal and interest due June 7, 2012. During 2011, the note agreement was extended an additional 59 monthly payments of \$3,000, including interest at 5.25% and a balloon payment of all outstanding principal and interest due June 7, 2017. The purpose of the note was to finance the construction of a new office building, completed in March 2006. The note payable is secured by a building, land and certain bank accounts. Amount outstanding at September 30, 2013 was \$287,000.

The Nation, with approval of the Tribal Council, has approved limited waivers of sovereign immunity in connection with various debt incurred by the Nation.

Maturities of long-term debt for the Governmental and Business-type Activities are as follows (dollars in thousands):

	Principal	Interest	Total
Governmental Activities:			
2014	3,475	1,293	4,768
2015	3,555	1,160	4,715
2016	2,400	1,051	3,451
2017	1,600	983	2,583
2018	3,820	881	4,701
2019 through 2023	17,940	2,046	19,986
2024 through 2025	<u>2,933</u>	<u>89</u>	<u>3,022</u>
Total	<u>\$ 35,723</u>	<u>\$ 7,503</u>	<u>\$ 43,226</u>
Business-type Activities:			
2014	1,263	103	1,366
2015	1,264	91	1,355
2016	1,264	80	1,344
2017	1,265	68	1,333
2018	1,266	56	1,322
2019 through 2023	3,047	116	3,163
2024 through 2028	345	26	371
2029 through 2033	231	8	239
2034	<u>31</u>	<u>-</u>	<u>31</u>
Total	<u>\$ 9,976</u>	<u>\$ 548</u>	<u>\$ 10,524</u>

9. COMPENSATED ABSENCES

Compensated absence liabilities are generally liquidated by the Fringe Pool Internal Service Fund, which allocates to and collects from other funds and/or departments within the Nation. Compensated absences are considered due within one year since historically the following year payment has exceeded the liability. The Nation provides paid sick and vacation leave to all regular full-time and part-time employees on a biweekly pay period. Leave may not be taken in advance of being earned and accrued. Sick leave is earned at the rate of four hours per pay period for regular full-time employees and two hours per pay period for regular part-time employees. Sick leave may be accrued to 1,040 hours. Unused sick leave will not be paid at the time of voluntary or involuntary termination of employment. Vacation leave is earned based on a pay count (number of checks) as follows:

Pay Count**Annual Leave Earned****Regular Full-Time****Regular Part-Time**

1 to 78 pay checks	4 hours per pay period	2 hours per pay period
79 to 260 pay checks	6 hours per pay period	3 hours per pay period
261 and above pay checks	8 hours per pay period	4 hours per pay period

Vacation leave may be accrued to a maximum of 240 hours. Once the 240 hours maximum balance is reached, the employee discontinues accruing until the number falls below 240 hours. Any employee who is separated from the job by layoff, resignation, termination or retirement shall have unused accrued annual leave paid in their last check.

Changes in the reported liability follow (dollars in thousands):

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Leave Earned</u>	<u>Leave Used</u>	<u>Balance at End of Year</u>
2011	\$6,238	\$9,671	(\$9,342)	\$6,567
2012	\$6,567	\$10,329	(\$9,695)	\$7,201
2013	\$7,201	\$9,440	(\$10,088)	\$6,553

The claims above are expected to be paid from currently available financial resources and are included in the accompanying Proprietary Funds statement of net position.

10. INTEREST RATE SWAP AGREEMENT

In connection with the issuance of a \$24,000,000 note payable (see footnote 2 on page 67 – 68), the Nation also entered into an interest rate swap agreement with BOK. Details of the agreement are as follows:

Objective of the Interest Rate Swap

The Nation's asset/liability strategy is to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations and to lower its borrowing costs when compared against fixed-rate debt at the time of issuance, the Nation entered into an interest rate swap agreement for its tax-exempt long-term note payable with a financial institution. The intention of the swap is to effectively change the Nation's variable interest rate portion on this note to a synthetic fixed rate of 2.21%, which together with the fixed portion of the interest rate of .95% will result in a total fixed rate of 3.16%.

Terms

The agreement was entered into on July 30, 2010, is scheduled to end on July 31, 2025 and required no initial net cash receipt or payment by the Nation. The agreement provides for the Nation to receive interest from the counterparty at 75% of the London Interbank Offering Rate (LIBOR) and to pay interest to the counterparty at a fixed rate of 2.21% on a notional amount of \$18,933,000 at September 30, 2013. The notional amount of the swap and the principal amount of the associated debt were equal at inception of the swap, and the notional amount declines by a corresponding amount each time a principal payment becomes due on the associated debt. Under the agreement, the Nation pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Fair Value

As of September 30, 2013, the agreement had a negative fair value of \$684,000 calculated using the par-value method, i.e., the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable note. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed component from the established market value of the variable component. The fair value of the swap of \$684,000 is shown as a derivative investment – rate swap liability on the statement of net position, with the offset recorded as a deferred outflow in the Nation’s government-wide statement of net position as the hedging relationships is highly effective.

Credit Risk

The swap’s fair value represented the Nation’s credit exposure to the counterparty as of September 30, 2013. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Nation has a maximum possible loss equivalent to the swap’s fair value at that date. As of September 30, 2013, the Nation was not exposed to credit risk because the swap had a negative fair value. The swap counterparty was rated A by Fitch Ratings, A- by Standard & Poor’s and A2 by Moody’s Investors Service as of September 30, 2013. The Nation does not currently have a policy of requiring the counterparty to post collateral in the event the Nation becomes exposed to credit risk. The Nation does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place.

Termination Risk

The Nation or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap is terminated, the variable-rate portion of the notes would no longer have a synthetic fixed rate of interest. Also, if the swap has a negative fair value at the time of termination, the Nation would be liable to the counterparty for a payment equal to the swap’s then fair value.

Swap Payments and Associated Debt

Using rates as of September 30, 2013 debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are set forth in the table below. As rates vary, variable-rate interest payments and net swap payments will vary.

	Variable-Rate Note		Interest	Total
	Principal	Interest	Rate Swap, Net	
2014	\$1,600,000	\$201,000	\$383,000	\$2,184,000
2015	1,600,000	182,000	350,000	2,132,000
2016	1,600,000	165,000	317,000	2,082,000
2017	1,600,000	147,000	282,000	2,029,000
2018	1,600,000	130,000	248,000	1,978,000
2019 – 2025	<u>10,933,000</u>	<u>416,000</u>	<u>796,000</u>	<u>12,145,000</u>
	<u>\$18,933,000</u>	<u>\$1,241,000</u>	<u>\$2,376,000</u>	<u>\$22,550,000</u>

11. LINES OF CREDIT

The Nation has a \$5 million line of credit with Bank of America that has never been used. The current line of credit with Bank of America carries a floating rate equal to the LIBOR Daily Floating Rate plus 150 basis points. The cost associated with maintaining this Line of Credit agreement for fiscal year 2013 was \$13,000. The current agreement is set to expire on September 30, 2014, unless extended.

Pursuant to LA 28-04 which amended LA 05-02, The Fiscal Policy and Responsibility Act, authorized a line of credit to be utilized in satisfying the permanent Cash Reserve required by the Act, and to permanently provide for operating cash needs of the Nation.

On July 19, 2013, CNB entered into a \$100,000,000 revolving credit agreement. CNE and its blended component units guarantee the credit facility. In addition, the agreement is collateralized by CNE's cash flows and substantially all of CNE's assets. The credit agreement includes a \$20,000,000 letter of credit arrangement. The agreement bears interest at the London InterBank Offered Rate (LIBOR) plus 1.20%. The credit agreement has quarterly unused commitment fees of 0.4%. CNB had no outstanding borrowings at September 30, 2013. CNB had letters of credit outstanding totaling \$4,300,000 at September 30, 2013. CNB's availability was \$95,700,000 at September 30, 2013.

CNHHS obtained a new line of credit on March 25, 2012. The initial draw was used to pay off all the outstanding lines of credit at that date. This line of credit bears interest payable monthly at a fixed rate of 4.50% and is secured by the full faith and credit of the Nation under a limited waiver of sovereign immunity. This line of credit is scheduled to mature on March 25, 2016. The balance of the line of credit for the year ended September 30, 2013 was \$251,000.

12. TRUST LIABILITY

The HACN has several lease-to-own homebuyer programs wherein the tenant/homebuyer may eventually purchase the house in accordance with contractual agreements. These transactions are similar to a financing lease, however are not accounted for as such as the amount and ability to collect the minimum lease payments is not predictable. Until the time of transfer, these homes remain the property of the HACN. The costs of those units are depreciated over the expected term of payoff at the time of the

original agreement, generally 25 years. When the home is paid off in accordance with the agreements and title is transferred to the homebuyer, a gain or loss is recognized by HACN. For the year ended September 30, 2013, a gain of \$388,000 was recorded in connection with such transfers.

The HACN Trust Liabilities reflected in the accompanying financial statements primarily includes a liability for funds that have been received from the tenants or homebuyers in the various lease-to-own programs. These funds are held in a trust type account to be applied to various uses, depending on the agreement with the tenant/homebuyer. The largest of the amounts included in this category are for accounts attributable to the New Mutual Help Housing Program wherein the tenant/homebuyers are credited with a portion of the funds that they have contributed as well as other amounts credited to them in accordance with HUD requirements and program policies. Under the provisions of mutual help occupancy agreements, tenant/homebuyers are required to make payments based on the family or household income. After deducting an administrative fee as set forth by HUD, the remaining balance is credited to the participant's equity payment account (MEPA). The balance of the MEPA accounts, which are being held by HACN on behalf of the New Mutual Help homebuyers, was \$5,190,000 as of September 30, 2013. This along with other credits to these tenant/homebuyers totaled \$5,682,000 at September 30, 2013. Although these funds will generally be retained by HACN upon the transfer of home ownership to the tenant/homeowner, they are presented as a liability until then because the funds are effectively owned by the tenant/homeowner. Upon transfer of the home to the tenant/homeowner the funds will be considered revenue and applied to the carrying value of the related home and a gain or loss will be recorded by HACN.

Additionally, at September 30, 2013, other amounts included in this category include escrow deposits held by the HACN associated with the Title VI program mortgages totaling \$29,000, and low income housing tenants' security deposits of \$48,000.

13. FUND BALANCE CLASSIFICATION

The Nation adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes criteria for classifying fund balances into specifically defined categories and clarifies the existing governmental fund type definitions to improve the comparability of governmental fund financial statements. The details for the Nation's fund balances as of September 30, 2013 are as follows (dollars in thousands):

	Major					Total Governmental Funds
	Special Revenue Funds			Capital Projects Fund	Nonmajor Governmental Funds	
	General Fund	Self Governance DHHS	Housing & Urban Development			
Fund balances:						
Nonspendable:						
Inventory & prepaid assets	\$ -	\$ 11,251	\$ -	\$ -	\$ 28	\$ 11,279
Permanent fund principal	-	-	-	-	425	425
Restricted for:						
Federal, State and Private Grants	-	25,294	5,972	-	16,363	47,629
Education, Roads, Health, Safety (MFT)	36,370	-	-	-	-	36,370
Education (MVT)	3,959	-	-	-	-	3,959
Roads (MVT)	4,630	-	-	-	-	4,630
Law Enforcement (MVT)	327	-	-	-	-	327
Committed for:						
Cultural Tourism	5,763	-	-	-	-	5,763
Substance Abuse Treatment	226	-	-	-	-	226
TERO Job Training Programs	23	-	-	-	-	23
Assigned to:						
Budgetary Resources for Subsequent Year	3,645	-	-	-	-	3,645
Capital Projects	-	-	-	19,152	-	19,152
Unassigned:*	<u>10,298</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10,298</u>
Total fund balances	<u>\$ 65,241</u>	<u>\$ 36,545</u>	<u>\$ 5,972</u>	<u>\$ 19,152</u>	<u>\$ 16,816</u>	<u>\$ 143,726</u>

* Legislative Act (LA) 05-02 established a cash reserve in the amount of 1.75% of the original operating budget of each fiscal year to use as a stabilization fund. LA 28-04 amended LA 05-02 and established a \$5,000,000 Line of Credit as part of the 1.75% reserve. The legislative acts do not commit specific uses of the reserve; therefore the balance is shown as unassigned. For the current fiscal year \$3,805,000 of the unassigned fund balance was set aside to meet the \$8,805,000 reserve. For Fiscal Year 2014, an additional \$670,000 was appropriated to meet that reserve of \$9,475,000.

14. LANDFILL CLOSURE/POSTCLOSURE CARE COSTS & OTHER LANDFILL MATTERS

The Nation owns a solid waste landfill in eastern Oklahoma. The Nation accounts for the landfill closure/postclosure in accordance with the provisions of GASB Statement No. 18, *Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs*, in the Landfill Closure Enterprise Fund.

Federal regulations will require the Nation to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will only be paid near or after the date the landfill stops accepting waste, GASB Statement No. 18 requires proprietary funds, such as Landfill Closure, to report a portion of these costs as an operating expense in each period based on landfill capacity and utilization. The \$2,775,000 reported as Landfill Closure and Postclosure Care Liability at September 30, 2013 (included in Other Noncurrent Liabilities), represents the cumulative costs recognized to date based on the existing use of 39% of the total estimated capacity of the landfill. Landfill Closure will recognize the remaining estimated cost of closure and postclosure care of approximately \$4,293,000 as the remaining estimated capacity is filled. These estimated closure amounts are based on what it would cost to perform all closure and postclosure care in 2013. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Nation expects the landfill to have a remaining life of

approximately 8.6 million cubic yards. Actual remaining years of operation is dependent upon several factors including the volume of waste accepted on an annual basis.

CNWM currently operates the landfill and is required to make an annual payment to the Nation in an amount sufficient to cover the change in the annually calculated closure/post closure liability associated with the landfill operation. The actual closure/post closure liability relating to the landfill operation will be retained by the Nation, together with the cash and investment balances maintained in the Cherokee Nation's Closure/Postclosure restricted cash and investment funds. Total payments from CNWM for fiscal year 2013 were approximately \$63,000.

The Nation makes annual contributions to a restricted bank account to finance closure and postclosure care. At September 30, 2013, restricted cash, cash equivalents and investments of approximately \$2,712,000 were held for these purposes. The Nation expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are necessary (due to changes in technology or applicable laws or regulations, for example), such costs may need to be funded by charges to future landfill users or other revenue sources.

15. RISK MANAGEMENT AND SELF-INSURED HEALTH PLANS

The Nation manages its risk exposures through risk retention and the purchase of insurance. In the area of health benefits, the Nation utilizes a modified self-insured program with a third party administrator. Claims for benefits are paid by the Nation to a level of \$200,000 per year per employee. Amounts over \$200,000 per employee are subject to reimbursement by the insurance company.

The Nation is self-insured against employee health and short-term disability claims incurred under its employee group health disability plan. The maximum liability risk to the Nation is \$200,000 per employee per year for employee health. Any claims in excess of this limit are covered by insurance. Significant insurable exposures other than health claims are covered by commercial insurance. For insured exposures, there were no significant reductions in insurance coverage during the year ended September 30, 2013. Additionally, settlement amounts have not been in excess of insurance coverage in each of the past three years.

The Nation's reported employee health claims liability of \$4,379,000 at September 30, 2013, has been recorded in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

The claims liability has been estimated based upon historical claims experience. The Nation believes that this method of estimating the liability is sufficient to determine the amount of open claims and to provide for claims that have been incurred but not reported (IBNR). Changes in the reported liability follow (dollars in thousands):

Fiscal Year	Balance at Beginning of Year	Claims and Changes in Estimates	Claim Payments	Balance at End of Year
2011	\$2,324	\$19,819	(\$19,730)	\$2,413
2012	\$2,413	\$26,005	(\$24,542)	\$3,876
2013	\$3,876	\$27,264	(\$26,761)	\$4,379

The claims above are expected to be paid from currently available financial resources and are included in the accompanying Proprietary Funds statement of net position.

Workers' Compensation benefits are provided within the All Lines Aggregate program described below. There is \$100,000 retention with a maximum benefit of \$5,000,000 for each occurrence. Employers Liability has a \$5,000,000 per person/claim limit, and Crime coverage has a \$1,000,000 each loss limit with a Retroactive date of October 1, 2003. Excess Crime coverage is in place with a lower deductible of \$25,000.

The first \$100,000 of risk is retained with the exception of a \$100,000 deductible on Tribal Officials Errors and Omissions Coverage. The All Lines Aggregate (ALA) program responds to losses over the \$100,000 retention/deductible level. A stop loss equivalent to 1.8% of payroll is in place to limit the Nation's exposure. Program design includes Clash Coverage which further limits the Nation's exposure by applying only one \$100,000 retention per insured incident regardless of the number of coverage lines that may apply arising out of a single Event. Coverage provided by the ALA program includes the following liability coverage on a \$10,000,000 per occurrence basis: Comprehensive General Liability, Products/Completed operations including but not limited to Contractual Liability, Special Events Liability, Sexual Misconduct Liability, Cemetery Malpractice, Medical Malpractice including Hospital/Clinic Malpractice, Host and/or Liquor Liability, Innkeepers Liability, Automobile Liability including Non-Owned Automobile Liability, Auto Medical Payments, Uninsured and Underinsured Motorists. The following coverage lines have a limit of \$10,000,000 each occurrence and in the Aggregate: Police or Law Enforcement Officials Liability, Tribal Officials Liability, Errors and Omissions Liability, Employee Benefit Liability, and Employment Practices Liability. Retroactive coverage is provided for all coverage lines within this class with an October 1, 2003 Retroactive Date. A \$15,000,000 Umbrella was obtained to go over the ALA coverage lines.

In order for CNB to comply with *Service Contract Act* and *Davis-Bacon Act* contracts, the employee and employer contributions and the claims from the self-insured medical and dental plan are required to be made to a trustee or third party pursuant to a bona fide fringe benefit fund plan or program. CNB has established a Trust account where the employee and employer's contributions and the estimated claims amount are sent to the trust every pay period for the employees that are subject to *Service Contract Act* and *Davis-Bacon Act* contracts.

CNB provides employee health coverage under three separate self-insured group health plans covering different groups of employees. The maximum liability per participant per plan year ranges from \$75,000 to \$200,000 depending on the plan. Any claims in excess of these limits are covered by stop-loss insurance. Self-insurance liabilities are estimated based on claims experience and are included in accounts payable and accrued liabilities in the accompanying statements of net position. Information concerning the changes in the CNB self-insurance medical liability follows (dollars in thousands):

Fiscal Year	Balance at Beginning of Year	Claims and Changes in Estimates	Claim Payments	Balance at End of Year
2011	\$2,972	\$22,958	(\$22,557)	\$3,373
2012	\$3,373	\$22,557	(\$22,472)	\$3,458
2013	\$3,458	\$32,591	(\$32,248)	\$3,801

16. EMPLOYEE RETIREMENT PLAN

The following brief descriptions of the Nation's retirement plans are provided for general information purposes only. Participants should refer to the applicable plan documents for more complete information. The Nation sponsors a defined contribution 401(k) plan, which utilizes Reliance Trust Company, as trustee. A defined contribution plan provides retirement benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. Under a defined contribution plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. All regular full-time and regular part-time employees who have attained at least 18 years of age are eligible to participate in the plan upon employment. The plan year is January 1 through December 31. Participants become fully vested after four years of participation in the plan. Employees may contribute from 1% to 50% of their gross salary, and after 6 months of service the Nation will match 100% for the first 5% and 50% of the next 4%. The plan is administered by the Executive Director of Human Resources, with input from the Nation's Pension Committee. The Pension Committee consists of the plan administrator and employees of the Nation. The plan administrator is responsible for amending the plans' provisions, including contribution requirements.

The Nation's primary government's total gross payroll for fiscal year 2013 was approximately \$147,610,000, which included approximately \$145,789,000 for employees covered by the plan. Contributions to the 401(k) plan for 2013 were approximately \$11,437,000. Contributions expressed in dollars and percent of covered payroll were: Nation \$4,840,000, 4.2% and participants \$6,597,000, 5.8%. The Nation's required contribution and percentage of contribution for fiscal year 2013 and the two preceding years follows:

(dollars in thousands)

Fiscal Year	Required Contribution	Percentage Contribution
2011	\$4,416	100%
2012	\$4,673	100%
2013	\$4,840	100%

The Cherokee Nation Elected and Appointed Official's 401(k) Plan and Trust is a qualified defined contribution plan established by the Nation for the benefit of the Nation's eligible elected and appointed officials. This plan is intended to constitute a qualified profit sharing plan within the meaning of Code Section 401(a), and all regulations issued under the Code (the "Regulations"), to the extent applicable to a governmental plan. This plan does not elect to be subject to provisions of the Code that are not applicable to a governmental plan nor, unless specifically provided, to any of the provisions of the Employee Retirement Income Security Act of 1974. Contributions to the CN Elected and Appointed Official's

401(k) plan for 2013 were \$238,000 of which \$69,000 was required and made by the Nation and \$169,000 was made by participants.

CNB employees are eligible to participate in various 401(k) savings plans as follows:

The Cherokee Nation Businesses, LLC 401(k) Retirement Savings Plan (the Plan or CNB Plan), formerly the Cherokee Nation Entertainment, LLC 401(k) Retirement Savings Plan Allows full time employees of CNB and certain component units who are at least 21 years of age to participate in the Plan. Under the provisions of the Plan, participants may elect to contribute from 1% to 25% of their eligible compensation of which CNB and these component units will match 100% of the first 6%. During 2013, participating employees contributed \$10,200,000 to the Plan.

CMS and CNHS have a 401(k) plan covering substantially all full time employees of CMS and CNHS. CMS and CNHS do not make contributions to this plan.

Employees of CNGS and CNTS are eligible to participate in a new plan effective March 1, 2011. The plan covers full time employees who are at least 21 years of age. Under the provisions of the plan, CNGS and CNTS will match 50% of the employee's contributions up to 4%. CNGS' and CNTS' contributions to the plan were approximately \$418,000 for 2013.

At September 30, 2013, liabilities under deferred compensation and long term incentive compensation arrangements for executives of CNB and its component units totaled approximately \$1,900,000.

CEC has adopted a 401(k) retirement plan for its employees. Employees are eligible to participate beginning six months from the date of employment, with a minimum of 1,000 hours of service. Employees may contribute up to 50% of their compensation to the plan subject to maximum contributions established by the IRS. CEC makes matching contributions up to 3% of an eligible employee's annual compensation. Employer contributions to the plan fully vest after three years of participation. CEC's total contributions for the year ended September 30, 2013 were approximately \$31,000. The plan also has a profit sharing provision. The amount of the profit sharing contribution is at the discretion of the board of CEC. Profit sharing contributions are fully vested after three years of participation. CEC made no profit sharing contributions for the year ended September 30, 2013.

17. RELATED PARTY TRANSACTIONS

The Nation requires monthly dividend payments from component units, organized under the Nation's laws, based on a percentage of net income (35% as of September 30, 2013). Dividend payments to the Nation by component units totaled \$44,109,000 (which includes an accrual of \$3,423,000) during 2013. In addition to the required monthly dividend payments from component units, included in the above total, special dividends were declared during 2013 in the amount of \$5,000,000 to be used for facilities improvements.

Cherokee Nation Businesses, LLC (CNB)

The Nation levies certain taxes and fees which apply to some of the Nation's component units. During 2013, the Nation collected a tribal tax on food and beverage, tobacco, merchandise and other retail sales from CNE totaling \$3,400,000.

The Nation also provides certain security services to CNE through the Nation's Marshal Service. In 2013, the Nation collected \$708,000 from CNE for services provided by the Marshals.

CNE recorded fees of approximately \$3,400,000 in 2013 to the Cherokee Nation Gaming Commission (CNGC) which has regulatory oversight responsibility for gaming.

CNE has entered into certain lease agreements with the Nation. CNE leases land for a driving range at the Cherokee Trails Golf Course in Tahlequah, Oklahoma. CNE also leases restaurant and gift shop facilities in Tahlequah.

CNE operates the gift shop at the Cherokee Heritage Center (the Heritage Center). The operations of the gift shop are included in the accompanying financial statements and resulted in a net loss of \$55,000 in 2013. In addition to operating the gift shop, CNE provides marketing services for the Heritage Center. The cost of the marketing services totaled \$193,000 for 2013 and is included in the accompanying statements of revenues, expenses and changes in net position.

CNE provides funding for cultural development activities on behalf of the Nation. These activities involve restoring Cherokee landmarks as well as engaging in campaigns to inform the public of the Cherokee Nation's history and making contributions to communities within the Nation. During 2013, CNE incurred \$2,700,000 in operating and employee costs in addition to a \$1,900,000 capital grant awarded to the Nation for cultural development activities.

During 2012, CNB's Board of Directors approved the transfer of property purchased by CNE for \$922,000 consisting of approximately 191 acres of land to the Nation. The transfer of property was completed in October of fiscal year 2013 and is included in capital grants to the Nation in the accompanying financial statements.

From time to time, CNB enters into agreements with the Nation to provide internal audit-related services. CNB has incurred expenses during the year and has outstanding receivables totaling \$144,000 as of and for the year ended September 30, 2013. Various additional services are provided to the Nation by CNB in the ordinary course of business for which CNB does not receive reimbursement from the Nation.

CNB has an outstanding note receivable from Cherokee Nation Comprehensive Care Agency (CNCCA). The note is due in monthly installments of \$9,000 and pays interest at 6.5% annually and matures in May 2038. The outstanding balance on the loan at September 30, 2013 was \$1,300,000.

Housing Authority of the Cherokee Nation (HACN)

The HACN has recorded \$13,217,000 in grant revenue in 2013 which is the result of pass through funding from the Nation in relation to the Nation's NAHASDA funding.

Cherokee National Historical Society, Inc (CNHS)

In November 2005, the Nation, CNE, and the CNHS entered into a Memorandum of Agreement to further the parties shared mission to preserve the culture and history of the Cherokees by assigning duties to the party that can best perform those duties. CNHS remained responsible for all charitable fundraising, maintaining memberships, operating the museum and teaching the Cherokee Humanities Course. In 2013, CNE provided marketing services, including group sales, and operation of the museum store at a net cost to CNE of \$193,000.

The Nation performed all remaining operational and educational functions such as accounting, purchasing, contracts, human resources, information technology, and facilities maintenance. The Memorandum of Agreement is renewable annually upon agreement of the entities involved. For fiscal year 2013, the Nation's general fund included operational expenses of \$784,000 for the Cherokee Nation Historical Society. The Nation had a receivable from CNHS at September 30, 2013 in the amount of

\$73,000 that is reflected as a due from component unit in the government-wide statement of net position for the Nation's governmental activities.

18. COMMITMENTS AND CONTINGENCIES

Citizenship Litigation

The Nation held a special election on March 3, 2007 regarding criteria for citizenship in the Cherokee Nation. The results of that election were that citizenship is now limited to those individuals who had an Indian ancestor on the Dawes Rolls. Three different lawsuits occurred as a result of that citizenship amendment. Those persons excluded by the special election alleged that they cannot be disenrolled as citizens under the Nation's 1866 Treaty with the United States, along with various federal laws. On January 14th, 2011, the Cherokee Nation District Court ruled in favor of those persons and directed the Cherokee Nation Registrar to process citizenship applications previously held in abeyance. The Nation appealed the CN District Court decision and requested a stay in the processing of applications pending the Cherokee Nation Supreme Court decision on the appeal. The CN District Court issued an order on February 18, 2011 continuing the stay pending the Cherokee Nation Supreme Court decision on the appeal. On August 22, 2011, the Cherokee Nation Supreme Court reversed the decision of the district court, holding that the constitutional amendment was valid, and vacating the stay. On September 20, 2011, a hearing occurred in the District of Columbia on a preliminary injunction, staying the effect of the Cherokee Nation Supreme Court order. An agreed order was entered, effectively reinstating the status quo to the point prior to the Supreme Court's August decision. The District of Columbia federal judge subsequently upheld the Nation's motion to dismiss. That matter was appealed to the Circuit Court of Appeals and on March 12, 2013 the Court of Appeals for the District of Columbia denied Cherokee Nation their request for rehearing en banc. This decision was not appealed by the Nation and therefore the case was remanded back to the DEC District Court (Case No. 03-01313). The case is pending decision on the Nation's Motion for Summary Judgment. The pending action on the merits of the claims in the Northern District of Oklahoma has been transferred to the DC District Court (Case No. 03-01711). This case is stayed pursuant to resolution of the 03-01313 Motion for Summary Judgment. The net impact of this case is not certain but is not expected to have a material adverse economic impact on the Nation.

Federal Grants

In the normal course of operations, the Nation and certain of its component units receive significant federal funding from various federal agencies. The ability of the Nation to continue receiving this funding could be impacted by federal budgetary policies and practices. The grant programs are subject to audits by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent with the granting of funds. Management does not believe any liability for reimbursement which may arise as the result of these audits will be material.

United Keetoowah Band/Arkansas River Drybed Settlement Claim

The United Keetoowah Band of Cherokee Indians of Oklahoma filed a claim in the United States Court of Claims, alleging that it was entitled to a portion of the funds from the Arkansas Riverbed Settlement Act passed by Congress. The legal proceedings, in the opinion of management, based on available information, are not likely to have a material adverse impact on the affected funds of the Nation.

BIA and IHS Indirect Cost Settlement

The Nation is a member of the class of contractors whose claims were addressed in a June 18, 2012 United States Supreme Court decision which ruled that the Bureau of Indian Affairs (BIA) should pay the full amount of contract support costs incurred by tribes performing contracts with the BIA.

The courts have not allowed a class action against the Indian Health Services (IHS), but similar claims exist with the IHS for the payment of Contract Support Costs (CSC). The IHS has affirmed its commitment to resolving Tribal claims for unpaid CSC. Based on historical practice, these claims will settle upon the completion of individual discussions with tribes who have presented such claims to IHS.

Although a favorable Supreme Court decision has been received on the BIA class action suit, and the IHS has affirmed their commitment to resolving tribal claims for unpaid CSC, because of the significant uncertainties surrounding these claims, it is not possible to determine a reasonable estimate of the amount of any ultimate recovery from BIA or IHS and therefore no recovery has been recorded by the Nation as of September 30, 2013.

Other Legal Contingencies

The Nation and its component units are party to various legal proceedings, which normally occur, in governmental operations. The legal proceedings, in the opinion of management, based on available information, are not likely to have a material adverse impact on the affected funds of the Nation.

CNB Matters

CNE is licensed to conduct Class II gaming operations as well as an expanded variety of gaming as allowed under the Compact. It is common in the industry to introduce new games and gaming technology that must be evaluated to determine whether such games meet the requirements of Class II gaming or the requirements of the Compact. This determination can be challenged by several parties, including, but not limited to, the gaming commissions that license the operations of the gaming facilities as well as various federal regulatory agencies. CNE offers electronic games which management believes are permitted under Class II gaming restrictions or the Compact; however, the permissibility and/or the classification of these games can and may be challenged by licensing and governing authorities that exercise jurisdiction over these activities.

CNE has entered into long-term agreements with various local governments which call for the provision of services (police, fire, water, power, etc.) to CNE facilities. These agreements often have terms ranging from 5 to 15 years. The annual aggregate payments under these agreements are not considered material to the operations of CNE.

CNE has entered into a motor fuel marketing agreement with a vendor to purchase motor fuel products for sale at the Roland Travel Plaza in Roland, Oklahoma, which opened in May 2007. The agreement is effective the first day of the month following completion and expires in 2017. Total purchases under this agreement were \$6,100,000 in 2013.

In 2004, CNE acquired Will Rogers Downs, LLC from an unrelated party. As part of the purchase price, CNE agreed to pay an additional \$1,250,000 when, and if, the property is placed into Trust Status with the Bureau of Indian Affairs and could be required to make additional payments based on the cash flows generated by the operation of the facility. These additional payments will be capitalized when, and if, made and depreciated, as applicable, over the remaining economic life of the property. No additional payments as described above have been required since the acquisition.

In November 2008, CNE entered into a licensing agreement with Hard Rock Hotel Holding, LLC and HRHH IP, LLC. Under the terms of the agreement, CNE branded its Catoosa property under the Hard Rock Hotel and Casino name effective August 2009. CNE is required to make annual license payments based on a percentage of Catoosa property revenues, as defined in the agreement. CNE recognizes the portion of the minimum fee paid each month that exceeds the calculated amount as an intangible asset. The intangible asset is being amortized over the 12-year life of the license agreement. The minimum amount of fees paid is expensed and included in operating expense in the statement of revenues, expenses

and changes in net position. In addition to paying a license fee under the Hard Rock license agreement, CNE is also required to make annual lease payments for memorabilia displayed throughout the Catoosa property. As a requirement to the agreement, CNE is also required to meet certain operational and capital standards. As of September 30, 2013, CNE believes it is in compliance with the agreement.

During 2013, the Board of Directors of CNB and related entities approved the expenditure of up to approximately \$100,000,000 on Cherokee Nation medical facilities. These medical facility expenditures may require additional supplemental contributions from CNE to CNB in future years.

HACN Matters

The HACN has provided a “Tax Credit Recapture Guarantee” to the Limited Partners of Jay Senior Housing, Stilwell Senior Housing, Northview Estates and the Wisdom Keepers Limited Partnerships (third party syndicators of the tax credits) should the Internal Revenue Service disallow the use of any of the tax credits being marketed to third party investors by the Limited Partners. The aggregate tax credits provided through these partnerships was approximately \$13,600,000. The HACN has also provided an “Operating Deficit Guarantee” which would require the Housing Authority to provide capital for operations should the need arise. To date, the HACN has not been required to provide any “Deficit Guarantee” funding, and management of the HACN does not believe funding for Deficit Guarantee or Tax Credit Recapture will be required in the future.

Loan Guarantees

The Nation approved a loan guarantee for Cherokee Nation Home Health Services, Inc., a discretely presented component unit, up to \$786,000. This loan guarantee replaced a previous guarantee of \$915,000.

19. SUBSEQUENT EVENTS

CNB Matters

On October 30, 2013, an \$11,000,000 allocation of New Market Tax Credits was sub allocated to an eligible project.

CNWM Matters

Subsequent to September 30, 2013, the Nation pledged \$850,000 to CNWM in an effort to modernize the landfill and assist in purchasing new equipment. The pledged funds were received as of January 2014.

OTHER SUPPLEMENTARY
INFORMATION

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W.W. HASTINGS

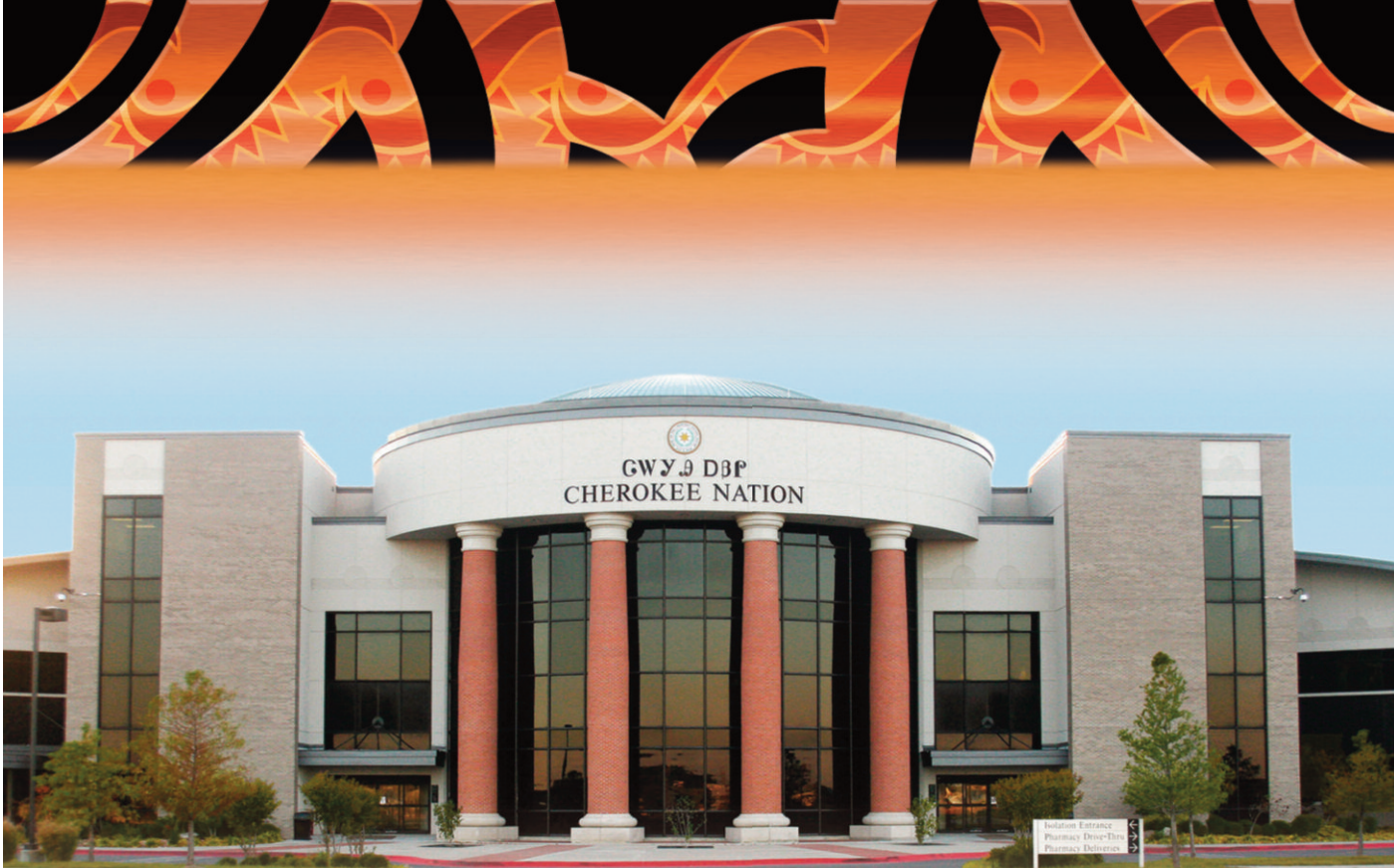
HOSPITAL



TAHLEQUAH, OKLAHOMA

NONMAJOR
GOVERNMENTAL FUNDS

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THREE RIVERS

HEALTH CENTER



MUSKOGEE, OKLAHOMA

Governmental Fund Types – Governmental funds are those through which most governmental functions of the Nation are financed. The acquisition, use and balances of the Nation’s expendable financial resources and the related liabilities (except those accounted for in proprietary funds) are accounted for through governmental funds. Governmental fund types use the current financial resources measurement focus. This measurement focus is based upon the receipt and disbursement of current available financial resources rather than upon net income.

Special Revenue Funds – Special revenue funds are used to account for the proceeds of government grants or other specific revenue sources that are restricted by law or administrative action to finance particular functions or activities of the Nation. These funds include:

- **Self Governance DOI - Other** – Established to account for funds received under the Nation’s self governance compact with the United States Government. These funds are used to administer a number of programs under the Department of Interior relating to education, health and welfare, and tribal government within the Nation’s geographic boundaries.
- **Sequoyah Education** – Established to account for grant funds received from the Department of the Interior to help fund the education programs of Sequoyah High School.
- **Talking Leaves Job Corps** – Established to account for funds received from the Department of Labor for counseling, training and job placement of disadvantaged youth.
- **Diabetes** – Established to account for Department of Health and Human Services Diabetes Grant funds used to purchase diabetic medicines and supplies, promote awareness and provide assistance to diabetic patients.
- **Food Distribution** – Established to account for Department of Agriculture food products provided to the Nation and grant funds used to pay administrative and program costs of a program which provides food to eligible Indian families.
- **Women, Infants and Children** – Established to account for grant funds received from the Department of Agriculture to supply supplemental food and nutrition education to women and children at nutritional risk.
- **Head Start** – Established to account for grant funds from the Department of Health and Human Services to provide comprehensive health, educational, nutritional, social, and other services primarily to economically disadvantaged preschool Indian children.
- **PL102-477** – Established to account for funds received through the Department of the Interior from the Department of Labor for counseling, training and job placement of disadvantaged youth, as well as from the Department of Health and Human Services to provide child care services for low-income families with a parent that is working or attending a training or educational program.
- **Other Grants** – Established to account for various sources of grant funds used to fund specific program activities.
- **Tribal Judgment Funds** – Established to account for monies received by the Nation from the settlement of disputes with the United States Government. The judgment funds are expended in accordance with plans for use and distribution adopted by the Nation and approved as applicable, by the DOI. The judgment funds are held and invested by the DOI Office of Trust Fund Management (OTFM) on behalf and for the benefit of the Nation.
- **Tribal Trusts** – Established to account for income received from external users of tribal lands, such as oil and gas royalties. The DOI OTFM administers these funds which may be expended upon request and approval by the DOI.

Debt Service Fund – Established in 2006 to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest related to health construction projects.

Permanent Funds – Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes supporting the Nation’s programs.

- **Sequoyah Endowment** – Established to account for funds endowed from the Louise K. Green-Matthews Grant in Environmental Science. The income from the grant is to be used to encourage Cherokee students of at least one-quarter blood quantum to engage in furthering their education in the Environmental Science field.
- **Gammon Education Trust** – Established to account for funds endowed by Glenn L. and Faye V. Gammon Trust. The income from this education trust may be used to provide tuition and related educational assistance while they attend any accredited college or university located in the continental United States. The Cherokee students must be at least one-quarter blood quantum.

CHEROKEE NATION
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
 SEPTEMBER 30, 2013
 (Dollars in Thousands)

	Special Revenue Funds										Debt Service			Permanent Funds			Total Nonmajor Governmental Funds
	Self Governance DOI-Other	Sequoyah Education	Talking Leaves Job Corps	Diabetes	Food Distribution	Women, Infants, & Children	Head Start	PL 102-477	Other Grants	Tribal Judgment Funds	Tribal Trusts	Total	Debt Service Fund	Sequoyah Endowment	Gammon Education Trust	Total	
ASSETS																	
Cash and cash equivalents	\$ 6,704	\$10,131	\$ 25	\$ 4,195	\$ -	\$ -	\$ -	\$ 4,557	\$ 504	\$ 162	\$ 155	\$ 26,433	\$ -	\$ -	\$ -	\$ -	\$ 26,433
Investments	-	-	-	-	-	-	-	-	298	8,199	2,729	11,226	-	-	-	-	11,226
Receivables, net	3	-	1,048	-	167	149	428	3	3,041	74	16	4,929	-	-	-	-	4,929
Due from other funds	-	-	-	-	-	-	-	2,101	-	-	-	2,101	-	-	-	-	2,101
Inventories	-	-	-	-	799	-	-	-	-	-	-	799	-	-	-	-	799
Notes receivable	-	-	-	-	-	322	-	-	28	-	-	28	-	-	-	-	28
Other current assets	-	-	-	-	-	-	-	63	20	-	-	405	-	-	-	-	405
Restricted cash, cash equivalents and investments	-	-	-	-	-	-	-	-	-	2,188	-	2,188	1,815	211	283	504	4,507
Total assets	\$ 6,707	\$10,131	\$1,073	\$ 4,195	\$ 966	\$ 471	\$ 428	\$ 6,724	\$ 3,891	\$ 10,623	\$ 2,900	\$ 48,109	\$ 1,815	\$ 211	\$ 283	\$ 504	\$ 50,428
LIABILITIES AND FUND BALANCES																	
Liabilities:																	
Accrued liabilities	\$ 518	3,368	1,073	\$ 468	167	10	428	-	1,627	1,740	64	9,463	44	-	2	2	9,509
Due to other funds	-	-	-	-	-	180	-	-	-	-	-	180	-	-	-	-	180
Other liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Unearned revenue	6,189	6,684	-	3,727	799	281	-	5,587	586	-	-	23,853	-	-	-	-	23,853
Total liabilities	6,707	10,052	1,073	4,195	966	471	428	5,587	2,283	1,740	64	33,566	44	-	2	2	33,612
Fund balances:																	
Nonspendable	-	-	-	-	-	-	-	-	28	-	-	28	-	-	134	291	425
Restricted	-	79	-	-	-	-	-	1,137	1,560	8,883	2,836	14,515	1,771	77	-	77	16,363
Total fund balances	-	79	-	-	-	-	-	1,137	1,608	8,883	2,836	14,543	1,771	211	291	502	16,816
Total liabilities and fund balances	\$ 6,707	\$10,131	\$1,073	\$ 4,195	\$ 966	\$ 471	\$ 428	\$ 6,724	\$ 3,891	\$ 10,623	\$ 2,900	\$ 48,109	\$ 1,815	\$ 211	\$ 283	\$ 504	\$ 50,428

CHEROKEE NATION
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
 FOR THE YEAR ENDED SEPTEMBER 30, 2013
 (Dollars in Thousands)

	Special Revenue Funds										Debt Service			Permanent Funds			Total Nonmajor Governmental Funds
	Self Governance DOI-Other	Sequoyah Education	Talking Leaves Job Corps	Diabetes	Food Distribution	Women, Infants, & Children	Head Start	PL 102-477	Other Grants	Tribal Judgment Funds	Tribal Trusts	Total	Debt Service Fund	Sequoyah Endowment	Gammon Education Trust	Total	
Revenues:																	
Intergovernmental	\$ 12,786	\$ 8,296	\$ 6,082	\$ 5,713	\$ 9,435	\$ 6,159	\$ 6,934	\$ 11,603	\$ 24,205	\$ -	\$ -	\$ 91,213	\$ -	\$ -	\$ -	\$ -	\$ 91,213
Interest	10	11	-	3	-	-	-	9	1	297	69	400	-	-	1	1	401
Other	393	16	-	-	84	-	922	669	2,004	-	71	4,159	-	-	-	-	4,159
Third party revenues	-	-	-	-	-	-	-	-	662	-	-	662	-	-	-	-	662
Total revenues	13,189	8,323	6,082	5,716	9,519	6,159	7,856	12,281	26,872	297	140	96,434	-	-	1	1	96,435
Expenditures:																	
Current operating:																	
Tribal government	4,789	-	-	-	-	-	-	-	299	685	188	5,961	-	-	-	-	5,961
Health services	4,141	8,711	6,077	5,706	-	6,147	-	-	9,498	-	-	21,351	-	-	-	-	21,351
Education services	2,977	-	-	-	-	-	7,832	1,303	2,067	-	-	30,131	-	-	2	2	30,133
Human services	1,016	-	-	-	10,133	-	-	11,371	10,062	-	-	34,543	-	-	-	-	34,543
Community services	-	-	-	-	-	-	-	-	3,469	-	-	4,485	-	-	-	-	4,485
Debt service:	-	-	-	-	-	-	-	-	-	-	-	-	1,795	-	-	-	1,795
Principal	-	-	-	-	-	-	-	-	-	-	-	-	797	-	-	-	797
Interest	497	354	5	10	220	12	24	12	1,230	-	-	2,364	-	-	-	-	2,364
Capital outlay	13,420	9,065	6,082	5,716	10,353	6,159	7,856	12,686	26,625	685	188	98,835	-	-	2	2	101,429
Total expenditures	(231)	(742)	-	-	(834)	-	-	(405)	247	(388)	(48)	(2,401)	-	-	(1)	(1)	(4,994)
Excess (deficiency) of revenues over expenditures	11	230	-	-	25	-	-	-	649	-	-	36	-	-	-	-	36
Other financing sources (uses):	(10)	-	-	-	809	-	-	-	(960)	-	-	1,688	2,633	-	-	-	4,321
Insurance recoveries	-	-	-	-	-	-	-	-	-	-	-	(970)	-	-	-	-	(970)
Transfers in	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers out	231	-	-	-	834	-	-	-	(311)	-	-	754	2,633	-	-	-	3,387
Total other financing sources (uses)	-	(742)	-	-	-	-	-	(405)	(64)	(388)	(48)	(1,647)	41	-	(1)	(1)	(1,607)
Net change in fund balances	-	821	-	-	-	-	-	1,542	1,672	9,271	2,884	16,190	1,730	211	292	503	18,423
Fund balance, October 1, 2012	-	-	-	-	-	-	-	\$ 1,137	\$ 1,608	\$ 8,883	\$ 2,836	\$ 14,543	\$ 1,771	\$ 211	\$ 291	\$ 502	\$ 16,816
Fund balance, September 30, 2013																	



REDBIRD SMITH

HEALTH CENTER



NONMAJOR ENTERPRISE FUNDS

2013
COMPREHENSIVE
ANNUAL
FINANCIAL
REPORT

SALLISAW, OKLAHOMA

Enterprise Funds – Enterprise funds are used to account for the Nation’s ongoing organizations and activities which are similar to those often found in the private sector where the intent is that costs of providing goods and services be recovered through user charges. The measurement focus of the Enterprise Funds, the flow of economic resources is based upon the determination of net income, net position and capital maintenance. The enterprise funds of the Nation include:

- **Tsa-La-Gi Apartments** – Utilized to account for the operations of the Nation’s federally subsidized low-income housing apartment complex, whose operating focus is to provide housing for qualified applicants and to recover costs of operations.
- **Landfill Closure** – Utilized to account for the solid waste landfill closure/postclosure for the landfill located in Stilwell, Oklahoma.
- **EDTA** - Established by Tribal Council Legislative Act 36-89 as a mechanism to promote economic development. Its mission is to provide opportunities for income generation through economic development, to provide loans for business creation/expansion, and to provide loans to qualified individuals whom have traditionally been denied by conventional lending sources.

CHEROKEE NATION

COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS

SEPTEMBER 30, 2013

(Dollars in Thousands)

	<u>Tsa-La-Gi Apartments</u>	<u>Landfill Closure</u>	<u>EDTA</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 326	\$ -	\$ 1,020	\$ 1,346
Due from other funds	-	1	103	104
Due from component units	-	62	-	62
Notes receivable, current	-	-	1,019	1,019
Other current assets	2	-	-	2
Total current assets	328	63	2,142	2,533
Noncurrent assets:				
Restricted cash and cash equivalents	279	2,712	-	2,991
Long-term notes receivable	-	-	4,234	4,234
Capital assets, net	483	-	-	483
Total noncurrent assets	762	2,712	4,234	7,708
Total assets	1,090	2,775	6,376	10,241
LIABILITIES				
Current liabilities:				
Accrued liabilities	39	-	-	39
Current portion of long-term debt	-	-	62	62
Due to component unit	69	-	-	69
Other current liabilities	22	-	-	22
Total current liabilities	130	-	62	192
Noncurrent liabilities:				
Long-term debt	-	-	1,187	1,187
Other liabilities	-	2,775	-	2,775
Total noncurrent liabilities	-	2,775	1,187	3,962
Total liabilities	130	2,775	1,249	4,154
NET POSITION				
Net investment in capital assets	483	-	-	483
Restricted	279	-	-	279
Unrestricted	198	-	5,127	5,325
Total net position	\$ 960	\$ -	\$ 5,127	\$ 6,087

CHEROKEE NATION

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2013 (Dollars in Thousands)

	<u>Tsa-La-Gi Apartments</u>	<u>Landfill Closure</u>	<u>EDTA</u>	<u>Total</u>
Operating revenues:				
Property rentals	\$ 505	\$ -	\$ -	\$ 505
Interest income, loans	-	-	206	206
Other	6	-	33	39
Total operating revenues	<u>511</u>	<u>-</u>	<u>239</u>	<u>750</u>
Operating expenses:				
Salaries and wages	72	-	-	72
Other services and charges	333	-	110	443
Materials and supplies	37	-	-	37
Depreciation	49	-	-	49
Total operating expenses	<u>491</u>	<u>-</u>	<u>110</u>	<u>601</u>
Operating income	<u>20</u>	<u>-</u>	<u>129</u>	<u>149</u>
Nonoperating revenues (expenses):				
Interest income	-	-	1	1
Interest expense	-	-	(14)	(14)
Net nonoperating revenues (expenses)	<u>-</u>	<u>-</u>	<u>(13)</u>	<u>(13)</u>
Income before transfers	20	-	116	136
Transfers in	-	-	194	194
Change in net position	20	-	310	330
Total net position - beginning	<u>940</u>	<u>-</u>	<u>4,817</u>	<u>5,757</u>
Total net position - ending	<u>\$ 960</u>	<u>\$ -</u>	<u>\$ 5,127</u>	<u>\$ 6,087</u>

CHEROKEE NATION

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

(Dollars in Thousands)

	<u>Tsa-La-Gi Apartments</u>	<u>Landfill Closure</u>	<u>EDTA</u>	<u>Total</u>
Cash flows from operating activities:				
Receipts from customers	\$ 505	\$ -	\$ -	\$ 505
Payments to suppliers	(361)	-	(110)	(471)
Payments to employees	(72)	-	-	(72)
Internal activity - payments from other funds	(62)	-	-	(62)
Internal activity - payments to other funds	-	(1)	-	(1)
Internal activity - payments from component units	69	65	-	134
Interest received on loans	-	-	206	206
Other receipts	7	-	33	40
Net cash provided by operating activities	<u>86</u>	<u>64</u>	<u>129</u>	<u>279</u>
Cash flows from noncapital financing activities:				
Transfer from other funds	-	-	194	194
Principal paid on notes payable	-	-	(61)	(61)
Interest paid on notes payable	-	-	(14)	(14)
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>119</u>	<u>119</u>
Cash flows from investing activities:				
Interest received	-	-	1	1
Increase in notes receivable, net	-	-	(848)	(848)
Net cash provided by (used for) investing activities	<u>-</u>	<u>-</u>	<u>(847)</u>	<u>(847)</u>
Net increase (decrease) in cash and cash equivalents	86	64	(599)	(449)
Cash and cash equivalents, October 1, 2012	<u>519</u>	<u>2,648</u>	<u>1,619</u>	<u>4,786</u>
Cash and cash equivalents, September 30, 2013	<u>\$ 605</u>	<u>\$ 2,712</u>	<u>\$ 1,020</u>	<u>\$ 4,337</u>
Cash and cash equivalents consist of:				
Unrestricted cash and cash equivalents	\$ 326	\$ -	\$ 1,020	\$ 1,346
Restricted cash and cash equivalents	279	2,712	-	2,991
Total Cash and Cash Equivalents, September 30, 2013	<u>\$ 605</u>	<u>\$ 2,712</u>	<u>\$ 1,020</u>	<u>\$ 4,337</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 20	\$ -	\$ 129	\$ 149
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	49	-	-	49
Change in assets and liabilities:				
Receivables, net	-	(1)	-	(1)
Accounts and other payables	17	65	-	82
Net cash provided by operating activities	<u>\$ 86</u>	<u>\$ 64</u>	<u>\$ 129</u>	<u>\$ 279</u>

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HARD ROCK

HOTEL & CASINO TULSA



INTERNAL SERVICE FUNDS

2013
COMPREHENSIVE
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FINANCIAL
REPORT

CATOOSA, OKLAHOMA

Internal Service funds are used to account for the financing of goods and services provided by one fund to other funds within the Nation on a cost reimbursement basis.

- **Internal Leases** is used to account for the cost to maintain certain buildings for use by other funds of the Nation.
- **Fringe Pool** is used to account for the cost of fringe benefits, including the Nation's self-insured health care benefits and workers' compensation benefits, used by other funds of the Nation.
- **Indirect Cost Pool** is used to account for the cost of providing certain services for a common or joint purpose benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefitted, such as accounting, human resources and acquisition management, to other funds of the Nation.

CHEROKEE NATION

COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS

SEPTEMBER 30, 2013

(Dollars in Thousands)

	<u>Internal Leases</u>	<u>Fringe Pool</u>	<u>Indirect Cost Pool</u>	<u>Total</u>
ASSETS				
Current assets:				
Cash and cash equivalents	\$ -	\$ -	\$ 5	\$ 5
Accounts receivable, net	-	456	123	579
Due from other funds	-	14,890	8,321	23,211
Due from component units	-	-	148	148
Inventories	-	-	161	161
Other current assets	-	40	427	467
Total current assets	<u>-</u>	<u>15,386</u>	<u>9,185</u>	<u>24,571</u>
Noncurrent assets:				
Capital assets, net	<u>10,046</u>	<u>-</u>	<u>900</u>	<u>10,946</u>
Total noncurrent assets	<u>10,046</u>	<u>-</u>	<u>900</u>	<u>10,946</u>
Total assets	<u>10,046</u>	<u>15,386</u>	<u>10,085</u>	<u>35,517</u>
LIABILITIES				
Current liabilities:				
Accrued liabilities	-	13,290	1,800	15,090
Due to other funds	3,500	-	-	3,500
Due to component unit	-	253	-	253
Compensated absences	-	6,553	-	6,553
Other current liabilities	-	4,379	5,878	10,257
Total current liabilities	<u>3,500</u>	<u>24,475</u>	<u>7,678</u>	<u>35,653</u>
Total liabilities	<u>3,500</u>	<u>24,475</u>	<u>7,678</u>	<u>35,653</u>
NET POSITION				
Net investment in capital assets	10,046	-	900	10,946
Unrestricted (deficit)	<u>(3,500)</u>	<u>(9,089)</u>	<u>1,507</u>	<u>(11,082)</u>
Total net position	<u>\$ 6,546</u>	<u>\$ (9,089)</u>	<u>\$ 2,407</u>	<u>\$ (136)</u>

CHEROKEE NATION

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(Dollars in Thousands)**

	<u>Internal Leases</u>	<u>Fringe Pool</u>	<u>Indirect Cost Pool</u>	<u>Total</u>
Operating revenues:				
Property rentals	\$ 7	\$ -	\$ -	\$ 7
Charges for services and goods	3,904	62,832	35,954	102,690
Other	63	-	132	195
Total operating revenues	<u>3,974</u>	<u>62,832</u>	<u>36,086</u>	<u>102,892</u>
Operating expenses:				
Salaries and wages	1,936	66,569	19,932	88,437
Other services and charges	1,370	40	14,936	16,346
Materials and supplies	337	-	1,389	1,726
Depreciation	559	-	481	1,040
Total operating expenses	<u>4,202</u>	<u>66,609</u>	<u>36,738</u>	<u>107,549</u>
Operating loss	<u>(228)</u>	<u>(3,777)</u>	<u>(652)</u>	<u>(4,657)</u>
Nonoperating revenues (expenses):				
Interest expense	(5)	-	-	(5)
Other	(18)	-	(1)	(19)
Net nonoperating revenues (expenses)	<u>(23)</u>	<u>-</u>	<u>(1)</u>	<u>(24)</u>
Income (loss) before transfers	(251)	(3,777)	(653)	(4,681)
Transfers in	<u>-</u>	<u>-</u>	<u>3</u>	<u>3</u>
Change in net position	(251)	(3,777)	(650)	(4,678)
Total net position - beginning	<u>6,797</u>	<u>(5,312)</u>	<u>3,057</u>	<u>4,542</u>
Total net position - ending	<u>\$ 6,546</u>	<u>\$ (9,089)</u>	<u>\$ 2,407</u>	<u>\$ (136)</u>

CHEROKEE NATION

COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS

FOR THE YEAR ENDED SEPTEMBER 30, 2013

(Dollars in Thousands)

	<u>Internal Leases</u>	<u>Fringe Pool</u>	<u>Indirect Cost Pool</u>	<u>Total</u>
Cash flows from operating activities:				
Receipts from customers - other funds	\$ 3,911	\$ 64,931	\$ 36,171	\$ 105,013
Payments to suppliers	(1,708)	-	(14,341)	(16,049)
Payments to employees	(1,936)	(67,217)	(19,932)	(89,085)
Internal activity - payments to other funds	-	-	(1,416)	(1,416)
Internal activity - payments from other funds	340	2,084	-	2,424
Internal activity - payments to component units	-	-	(82)	(82)
Internal activity - payments from component units	-	202	-	202
Other receipts	63	-	132	195
Net cash provided by operating activities	<u>670</u>	<u>-</u>	<u>532</u>	<u>1,202</u>
Cash flows from noncapital financing activities				
Transfer from other funds	-	-	3	3
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>3</u>	<u>3</u>
Cash flows from capital and related financing activities:				
Purchases of capital assets	(274)	-	(533)	(807)
Principal paid on capital debt	(392)	-	-	(392)
Interest paid on capital debt	(5)	-	-	(5)
Net cash used for capital and related financing activities	<u>(671)</u>	<u>-</u>	<u>(533)</u>	<u>(1,204)</u>
Net increase (decrease) in cash and cash equivalents	(1)	-	2	1
Cash and cash equivalents, October 1, 2012	<u>1</u>	<u>-</u>	<u>3</u>	<u>4</u>
Cash and cash equivalents, September 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 5</u>
Cash and cash equivalents consist of:				
Unrestricted cash and cash equivalents	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 5</u>
Total Cash and Cash Equivalents, September 30, 2013	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ 5</u>
Reconciliation of operating loss to net cash provided by (used for) operating activities:				
Operating loss	\$ (228)	\$ (3,777)	\$ (652)	\$ (4,657)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	559	-	481	1,040
Change in assets and liabilities:				
Receivables, net	-	1,628	(1,281)	347
Inventories	-	-	(30)	(30)
Other current assets	-	-	(57)	(57)
Accounts and other payables	339	2,149	2,071	4,559
Net cash provided by operating activities	<u>\$ 670</u>	<u>\$ -</u>	<u>\$ 532</u>	<u>\$ 1,202</u>

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BUDGETARY INFORMATION

STILWELL

CHILD DEVELOPMENT CENTER



2013
COMPREHENSIVE
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FINANCIAL
REPORT

STILWELL, OKLAHOMA

CHEROKEE NATION

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -
BUDGET AND ACTUAL (GAAP BASIS) - ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(Dollars in Thousands)**

	Budgeted Amounts		Actual	Variance with Final Budget over/(under)
	Original	Final		
Operating revenues:				
Property rentals	\$ 508	\$ 508	\$ 505	\$ (3)
Interest income, loans	496	496	330	(166)
Other	20	20	39	19
Total operating revenues	<u>1,024</u>	<u>1,024</u>	<u>874</u>	<u>(150)</u>
Operating expenses:				
Salaries and wages	-	-	72	72
Other services and charges	1,241	1,777	443	(1,334)
Materials and supplies	-	-	37	37
Depreciation	-	-	49	49
Total operating expenses	<u>1,241</u>	<u>1,777</u>	<u>601</u>	<u>(1,176)</u>
Operating income (loss)	<u>(217)</u>	<u>(753)</u>	<u>273</u>	<u>1,026</u>
Nonoperating revenues(expenses):				
Interest income	4	4	2	(2)
Interest expense	(15)	(15)	(138)	(123)
Net nonoperating revenue (expenses)	<u>(11)</u>	<u>(11)</u>	<u>(136)</u>	<u>(125)</u>
Income (loss) before transfers	(228)	(764)	137	901
Transfers in	-	537	194	(343)
Transfers out	-	(341)	-	(341)
Change in net position	(228)	(568)	331	899
Total net position - beginning	5,760	5,760	5,760	-
Total net position - ending	<u>\$ 5,532</u>	<u>\$ 5,192</u>	<u>6,091</u>	<u>\$ 899</u>
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(66)	
Net position of Enterprise Funds			<u>\$ 6,025</u>	

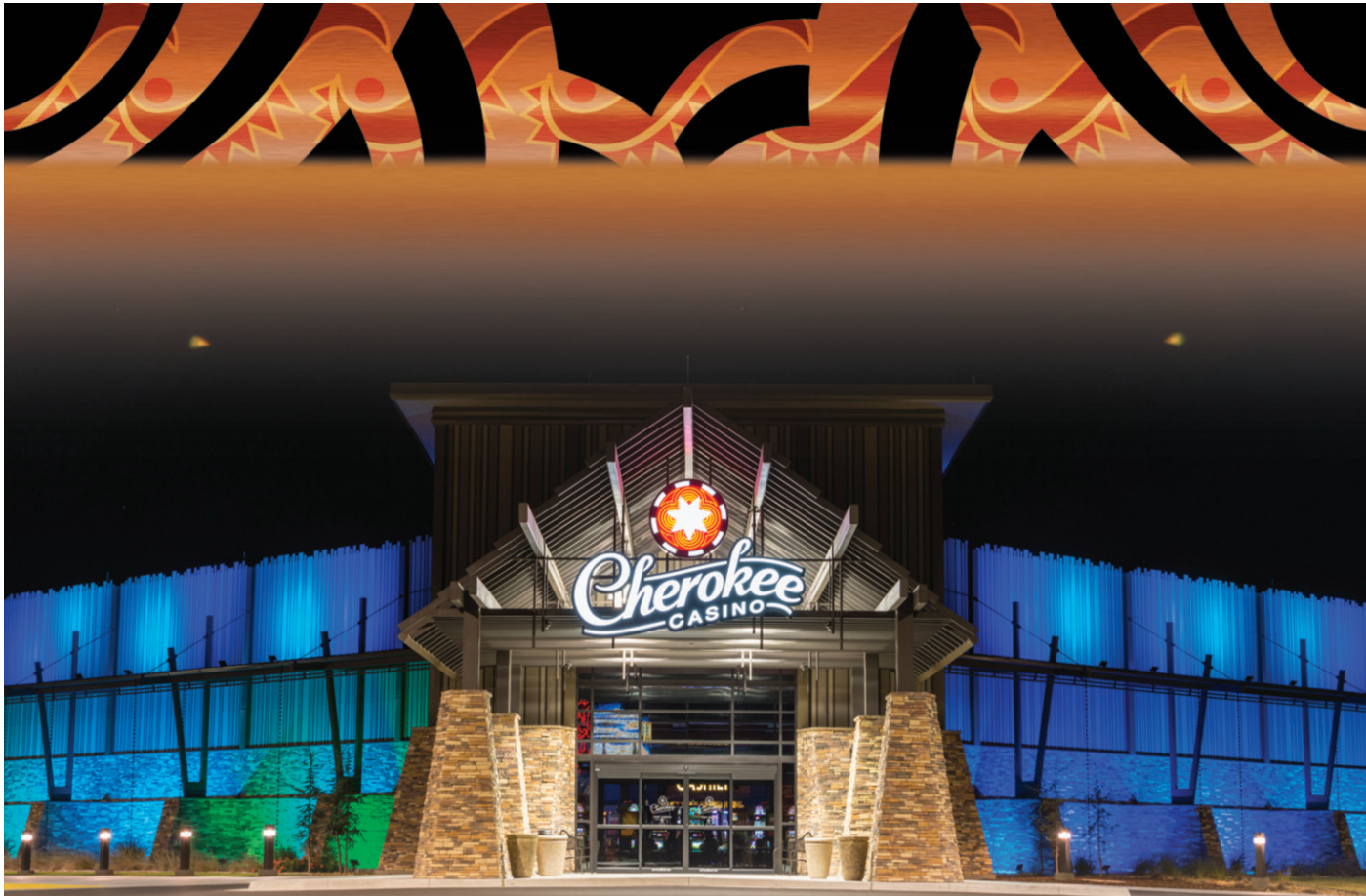
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SECTION

III

STATISTICAL

2013
COMPREHENSIVE
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FINANCIAL
REPORT



CHEROKEE CASINO

FT. GIBSON



FT. GIBSON, OKLAHOMA

The Statistical Section provides financial statement users with additional detailed information as a context for understanding the information in the financial statements, notes to financial statements, and required supplementary information as it relates to the government's overall financial health.

- **Financial Trends** – Schedules which contain trend information to assist users in understanding how the government's financial position has changed over time.
- **Revenue Capacity** – Schedules which contain information relating to the government's most significant tax revenue sources.
- **Debt Capacity** – Schedules which present information to help the reader assess the government's current levels of outstanding debt and the ability to issue additional debt in the future.
- **Demographic and Economic Indicators** – Demographic and economic indicators to enable users to understand the environment in which the government operates. Reports have been compiled similarly to prior years' reporting to maintain consistency.
- **Operating Information** – Schedules which contain service and program data to help users understand how the information contained in the government's financial report relates to the governmental activities performed.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The Nation implemented GASB 54 in 2011; the schedule presenting the new fund balance classifications include information beginning in that year. The Nation implemented GASB 61, 63 and 65 in 2013; the effects of the implementation of these standards have been included in the following schedules and prior years have not been adjusted.

CHEROKEE NATION

**SCHEDULE OF NET POSITION BY COMPONENT
LAST TEN FISCAL YEARS (Dollars in Thousands)**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental Activities										
Net investment in capital assets	\$ 29,403	\$ 35,969	\$ 47,627	\$ 53,781	\$ 62,021	\$ 74,152	\$ 78,468	\$ 94,667	\$ 102,104	\$ 123,091
Restricted	20,691	16,822	23,250	26,278	36,739	61,015	89,899	95,234	100,282	746,032
Unrestricted	65,566	66,627	69,039	83,373	87,255	68,411	50,110	49,656	61,251	32,510
Total governmental activities net position	115,660	119,418	139,916	163,432	186,015	203,578	218,477	239,557	263,637	901,633
Business-type activities										
Net investment in capital assets	4,388	5,519	4,653	162	204	253	457	514	533	483
Restricted	-	-	-	-	310	398	324	304	362	279
Unrestricted	(685)	(361)	420	1,072	2,029	2,478	3,128	4,052	4,800	5,263
Total business-type activities net position	3,703	5,158	5,073	1,234	2,543	3,129	3,909	4,870	5,695	6,025
Primary government										
Net investment in capital assets	33,791	41,488	52,280	53,943	62,225	74,405	78,925	95,181	102,637	123,574
Restricted	20,691	16,822	23,250	26,278	37,049	61,413	90,223	95,538	100,644	746,311
Unrestricted	64,881	66,266	69,459	84,445	89,284	70,889	53,238	53,708	66,051	37,773
Total primary government net position	\$ 119,363	\$ 124,576	\$ 144,989	\$ 164,666	\$ 188,558	\$ 206,707	\$ 222,386	\$ 244,427	\$ 269,332	\$ 907,658

CHEROKEE NATION

CHANGES IN NET POSITION

LAST TEN FISCAL YEARS (Dollars in Thousands)

(accrual basis of accounting)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Expenses										
Governmental activities:										
Tribal Government	\$ 13,627	\$ 17,023	\$ 16,433	\$ 21,624	\$ 24,639	\$ 29,323	\$ 29,841	\$ 29,678	\$ 29,428	\$ 28,885
Health Services	74,995	79,344	87,061	92,163	103,177	179,806	206,013	224,634	244,547	256,465
Education Services	32,901	33,429	36,588	39,096	40,365	46,200	54,085	52,348	54,061	57,076
Human Services	24,160	24,824	27,307	28,962	37,003	36,231	37,932	38,588	38,575	40,432
Community Services	35,163	35,060	42,867	49,131	51,693	72,334	75,600	63,814	68,391	72,344
Other Tribal Services	11,193	10,623	12,712	15,650	15,033	-	-	-	-	-
Interest on long-term debt	970	1,651	1,975	3,044	1,503	1,525	1,309	1,722	1,569	1,414
Total governmental activities expenses	193,009	201,954	224,943	249,670	273,413	365,419	404,780	410,784	436,571	456,616
Business-type activities:										
Title VI Loan Fund	-	-	-	-	1,458	826	469	302	190	124
Tsa-La-Gi Apartments	356	352	390	388	394	393	387	459	473	492
Cherokee Trails Golf Club	39	-	-	-	-	-	-	-	-	-
Landfill Closure	1,917	2,252	1,794	2,853	2,292	-	128	154	16	-
EDTA	-	127	182	139	373	73	47	67	46	124
Child Development	1,235	1,048	-	-	-	-	-	-	-	-
Other Enterprises	-	15	7	18	-	-	-	-	-	-
Total business-type activities expenses	3,553	3,794	2,373	3,398	4,517	1,292	1,031	982	725	740
Total primary government expenses	\$ 196,562	\$ 205,748	\$ 227,316	\$ 253,068	\$ 277,930	\$ 366,711	\$ 405,811	\$ 411,766	\$ 437,296	\$ 457,356
Program Revenues										
Governmental activities:										
Charges for services:										
Tribal Government	\$ -	\$ -	\$ 4	\$ 4	\$ -	\$ 640	\$ 4,237	\$ 4,116	\$ 4,458	\$ 4,535
Health Services	-	-	-	-	-	52,274	58,351	69,723	72,911	81,588
Community Services	-	-	-	-	1,120	4,054	994	799	714	12
Other Tribal Services	1,237	2,001	2,572	2,938	3,300	-	-	-	-	-
Operating grants and contributions	100,209	104,278	108,177	128,822	127,323	258,558	289,034	283,563	283,446	277,312
Capital grants and contributions	-	-	411	142	86	1,994	989	1,369	366	5,036
Total governmental activities program revenues	101,446	106,279	111,164	131,906	131,829	317,520	353,605	359,570	361,895	368,483
Business-type activities:										
Charges for services:										
Title VI Loan Fund	-	-	-	-	1,303	816	474	303	191	124
Tsa-La-Gi Apartments	437	475	492	498	525	519	514	508	521	511
Cherokee Trails Golf Club	6	-	-	-	-	-	-	-	-	-
Landfill Closure	1,355	1,937	1,216	2,044	1,126	-	128	154	-	-
EDTA	-	14	23	13	195	168	184	170	194	240
Child Development Centers	1,237	766	-	-	-	-	-	-	-	-
Other Enterprises	10	-	6	7	-	-	-	-	-	-
Operating grants and contributions	-	104	119	-	-	-	-	-	-	-
Total business-type activities program revenues	3,045	3,296	1,856	2,562	3,149	1,503	1,300	1,135	906	875
Total primary government program revenues	\$ 104,491	\$ 109,575	\$ 113,020	\$ 134,468	\$ 134,978	\$ 319,023	\$ 354,905	\$ 360,705	\$ 362,801	\$ 369,358
Net (Expense)/Revenue										
Governmental activities	\$ (91,563)	\$ (95,675)	\$ (113,779)	\$ (117,764)	\$ (141,584)	\$ (47,899)	\$ (51,175)	\$ (51,214)	\$ (74,676)	\$ (88,133)
Business-type activities	(508)	(498)	(517)	(836)	(1,368)	211	269	153	181	135
Total primary government net expense	\$ (92,071)	\$ (96,173)	\$ (114,296)	\$ (118,600)	\$ (142,952)	\$ (47,688)	\$ (50,906)	\$ (51,061)	\$ (74,495)	\$ (87,998)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Motor fuel tax	7,576	8,094	7,406	7,228	7,088	7,514	7,256	7,543	7,435	7,615
Motor vehicle tax	5,929	6,382	7,188	7,658	8,161	7,400	7,707	8,441	8,960	9,641
Tobacco tax	2,142	3,133	7,063	6,956	6,254	5,312	4,194	3,990	3,943	3,631
Gaming tax and licenses	262	-	-	-	-	-	-	-	-	-
Sales tax	249	686	1,144	1,215	1,208	1,610	2,314	2,905	3,111	3,363
Grants and contributions not restricted to specific programs	65,223	62,015	78,849	76,989	100,355	10,398	11,143	13,394	11,676	12,844
Unrestricted investment earnings	1,588	3,011	5,941	7,631	5,439	2,293	2,056	1,393	1,141	864
Indirect cost settlement	11,634	-	-	-	-	-	-	-	-	-
Dividends from component units	11,717	17,919	25,444	33,669	35,001	26,444	26,429	30,074	56,806	44,109
Miscellaneous revenue	1,232	898	1,199	1,375	2,222	4,848	5,483	5,360	6,327	3,921
Equity interest in joint venture	-	184	-	-	-	-	-	-	-	-
Increase in equity in component units	-	-	-	-	-	-	-	-	-	49,740
Gain/(loss) on disposals	1	-	-	-	-	-	-	-	-	-
Transfers	150	(2,889)	43	(1,441)	(1,561)	(357)	(508)	(806)	(643)	(194)
Total governmental activities	107,703	99,433	134,277	141,280	164,167	65,462	66,074	72,294	98,756	135,534
Business-type activities:										
Unrestricted investment earnings	19	52	334	393	72	18	3	2	1	1
Miscellaneous revenue	-	-	69	81	-	-	-	-	-	-
Gain/(loss) on disposals	(125)	-	72	-	1,044	-	-	-	-	-
Special item	-	-	-	(4,918)	-	-	-	-	-	-
Transfers	(150)	1,901	(43)	1,441	1,561	357	508	806	643	194
Total business-type activities	(256)	1,953	432	(3,003)	2,677	375	511	808	644	195
Total primary government	\$ 107,447	\$ 101,386	\$ 134,709	\$ 138,277	\$ 166,844	\$ 65,837	\$ 66,585	\$ 73,102	\$ 99,400	\$ 135,729
Change in Net Position										
Governmental activities	\$ 16,140	\$ 3,758	\$ 20,498	\$ 23,516	\$ 22,583	\$ 17,563	\$ 14,899	\$ 21,080	\$ 24,080	\$ 47,401
Business-type activities	(764)	1,455	(85)	(3,839)	1,309	586	780	961	825	330
Total primary government	\$ 15,376	\$ 5,213	\$ 20,413	\$ 19,677	\$ 23,892	\$ 18,149	\$ 15,679	\$ 22,041	\$ 24,905	\$ 47,731

CHEROKEE NATION

GOVERNMENTAL ACTIVITIES - TAX REVENUES BY SOURCE

LAST TEN FISCAL YEARS

(Dollars in Thousands)

<u>Year</u>	<u>Motor Fuel Tax</u>	<u>Motor Vehicle Tax</u>	<u>Tobacco Tax</u>	<u>Sales Tax</u>	<u>Total</u>
2013	\$ 7,615	\$ 9,641	\$ 3,631	\$ 3,363	\$ 24,250
2012	7,435	8,960	3,943	3,111	23,449
2011	7,543	8,441	3,990	2,905	22,879
2010	7,256	7,707	4,194	2,314	21,471
2009	7,514	7,400	5,312	1,610	21,836
2008	7,088	8,161	6,254	1,208	22,711
2007	7,228	7,658	6,956	1,215	23,057
2006	7,406	7,188	7,063	1,144	22,801
2005	8,094	6,382	3,133	686	18,295
2004	7,576	5,929	2,142	249	15,896

CHEROKEE NATION
FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS (Dollars in Thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
General Fund										
Reserved	\$ 44,013	\$ 58,967	\$ 36,282	\$ 42,220	\$ 50,241	\$ 46,895	\$ 46,973	\$ -	\$ -	\$ -
Unreserved	10,726	24,175	36,576	38,861	34,652	21,674	14,636	-	-	-
Restricted	-	-	-	-	-	-	-	39,447	41,777	45,286
Committed	-	-	-	-	-	-	-	6,353	11,548	6,012
Assigned	-	-	-	-	-	-	-	11,327	10,731	3,645
Unassigned	-	-	-	-	-	-	-	6,234	21,874	10,298
Total general fund	\$ 54,739	\$ 83,142	\$ 72,858	\$ 81,081	\$ 84,893	\$ 68,569	\$ 61,609	\$ 63,361	\$ 85,930	\$ 65,241
All Other Governmental Funds										
Reserved	\$ 21,372	\$ 21,696	\$ 24,572	\$ 41,018	\$ 32,896	\$ 59,642	\$ 102,399 *	\$ -	\$ -	\$ -
Unreserved, reported in:										
Special revenue funds	583	583	-	-	-	-	-	-	-	-
Capital projects fund	-	-	(524)	-	-	-	-	-	-	-
Nonspendable	-	-	-	-	-	-	-	11,793	11,734	11,704
Restricted	-	-	-	-	-	-	-	75,852	46,771	47,629
Assigned	-	-	-	-	-	-	-	9,796	16,449	19,152
Total all other governmental funds	\$ 21,955	\$ 22,279	\$ 24,048	\$ 41,018	\$ 32,896	\$ 59,642	\$ 102,399	\$ 97,441	\$ 74,954	\$ 78,485

* The increase in fund balance for FY 2010 was related to receipt of ARRA funded projects.

2004 through 2010 fund balances are not comparable to 2011 due to the adoption of GASB 54.

CHEROKEE NATION

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS
LAST TEN FISCAL YEARS (Dollars in Thousands)
(modified accrual basis of accounting)**

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Revenues										
Intergovernmental	\$ 150,516	\$ 147,048	\$ 166,252	\$ 178,508	\$ 203,570	\$ 255,401	\$ 289,094	\$ 285,686	\$ 285,150	\$ 284,143
Property rentals	585	461	513	575	1,750	4,225	4,432	4,136	4,255	691
Motor fuel tax revenues	7,576	8,676	7,406	7,228	7,088	7,514	7,256	7,543	7,435	7,615
Tax, license and fees	9,234	11,741	17,458	18,196	18,292	17,382	17,840	18,840	19,799	20,490
Interest	3,480	5,238	9,651	13,229	7,189	3,013	2,784	2,129	1,738	1,552
Trust fund income	90	79	104	67	190	100	101	105	127	96
Indirect cost settlement	646	8,314	2,201	-	-	-	-	-	-	-
Dividends from component units	11,717	17,919	25,444	33,669	35,001	26,444	26,429	30,074	56,806	44,109
Third party revenues	-	-	-	16,031	17,441	53,868	60,571	72,077	74,743	82,250
Income from HACN	-	-	-	-	-	5,851	1,425	1,500	1,945	-
Other	19,916	27,185	22,202	14,095	7,006	7,546	8,791	9,686	8,929	8,488
Total revenues	203,760	226,661	251,231	281,598	297,527	381,344	418,723	431,776	460,927	449,434
Expenditures										
Tribal Government	13,645	15,956	15,029	21,377	24,679	28,270	28,105	28,518	27,259	26,634
Health Services	73,248	77,829	84,528	94,478	103,009	177,697	201,773	220,201	236,307	246,947
Education Services	32,158	32,567	35,788	39,618	40,561	45,972	53,455	51,893	52,866	55,982
Human Services	23,748	24,516	26,839	29,238	37,290	36,214	37,625	38,315	37,829	39,761
Community Services	44,486	46,643	42,420	49,318	57,821	66,138	74,971	67,109	67,289	71,351
Other tribal services	9,658	10,834	11,789	15,705	14,640	-	-	-	-	-
Debt service										
Principal	1,272	1,685	3,117	10,912	2,002	5,003	2,148	3,710	3,630	3,525
Interest	797	1,472	1,819	2,911	908	1,498	1,251	1,699	1,567	1,435
Capital outlay	1,934	9,659	18,162	26,190	15,436	9,958	7,489	22,853	33,620	20,797
Total expenditures	200,946	221,161	239,491	289,747	296,346	370,750	406,817	434,298	460,367	466,432
Excess (deficiency) of revenues over expenditures	2,814	5,500	11,740	(8,149)	1,181	10,594	11,906	(2,522)	560	(16,998)
Other Financing Sources (Uses)										
Issuance of long-term debt	10,189	13,231	4,260	34,660	1,448	-	24,000	-	-	-
Fees associated with debt issuance	-	-	128	-	-	-	-	-	-	-
Insurance recoveries	-	-	27	8	244	273	399	122	165	37
Other proceeds	976	-	-	-	-	-	-	-	-	-
Transfers in	2,163	5,900	17,425	20,637	15,549	9,957	21,191	8,587	18,434	19,521
Transfers out	(2,043)	(9,353)	(17,920)	(21,963)	(22,732)	(10,402)	(21,699)	(9,393)	(19,077)	(19,718)
Total other financing sources (uses)	11,285	9,778	3,920	33,342	(5,491)	(172)	23,891	(684)	(478)	(160)
Net change in fund balances	\$ 14,099	\$ 15,278	\$ 15,660	\$ 25,193	\$ (4,310)	\$ 10,422	\$ 35,797	\$ (3,206)	\$ 82	\$ (17,158)
Debt service as a percentage of noncapital expenditures	1.04%	1.49%	2.23%	5.24%	1.04%	1.80%	0.85%	1.31%	1.22%	1.11%

CHEROKEE NATION

GOVERNMENTAL ACTIVITIES - MOTOR VEHICLE TAX REGISTRATIONS LAST TEN FISCAL YEARS

<u>Year</u>	<u>Motor Vehicle Registrations</u>	<u>Boat/ Motor Registrations</u>	<u>Total All Registrations</u>
2013	23,318	941	24,259
2012	22,192	912	23,104
2011	21,203	771	21,974
2010	19,322	651	19,973
2009	18,300	593	18,893
2008	21,201	621	21,822
2007	20,548	723	21,271
2006	19,436	570	20,006
2005	17,803	587	18,390
2004	18,396	718	19,114

Source: Cherokee Nation Tax Commission

CHEROKEE NATION

**GENERAL GOVERNMENTAL REVENUES BY SOURCE (GAAP BASIS)
LAST TEN FISCAL YEARS (Dollars in Thousands)**

Fiscal Year	Charges for Services	Operating Grants & Contributions		Capital Grants & Contributions		Motor Fuel		Motor Vehicle Tax		Other Tax Revenues		Unrestricted Grants & Contributions		Investment Earnings		Dividends from Components		Indirect Settlement		Equity Interest in Joint Venture		Increase in Equity in Component Units		Gain/(loss) on disposals	Total
		Contributions	Grants	Contributions	Grants	Tax	Other	Tax	Revenues	Contributions	Grants	Contributions	Earnings	Components	Settlement	Miscellaneous	Interest	Joint	Venture	Component	Units	Gain/(loss)			
2013	\$ 87,010	\$ 277,312	\$ 5,036	\$ 7,615	\$ 9,641	\$ 6,994	\$ 12,844	\$ 864	\$ 44,109	\$ -	\$ 3,921	\$ -	\$ 49,740	\$ -	\$ 505,086										
2012	78,989	283,446	366	7,435	8,960	7,054	11,676	1,142	56,806	-	6,327	-	-	-	462,201										
2011	75,773	283,563	1,369	7,543	8,441	6,895	13,394	1,395	30,074	-	5,360	-	-	-	433,807										
2010	64,882	289,034	989	7,256	7,707	6,508	11,143	2,059	26,429	-	5,483	-	-	-	421,490										
2009	58,471	258,558	1,994	7,514	7,400	6,922	10,398	2,311	26,444	-	4,848	-	-	-	384,860										
2008	7,569	127,323	86	7,088	8,161	7,462	100,355	5,511	35,001	-	2,222	-	-	-	300,778										
2007	5,504	128,822	142	7,228	7,658	8,171	76,989	8,024	33,669	-	1,456	-	-	-	277,663										
2006	4,313	108,296	411	7,406	7,188	8,207	78,849	6,275	25,444	-	1,268	-	-	-	247,729										
2005	5,193	104,382	-	8,094	6,382	3,819	62,015	3,063	17,919	-	898	-	-	-	211,949										
2004	4,282	100,209	-	7,576	5,929	2,653	65,223	1,607	11,717	11,634	1,108	-	-	-	211,938										

2004 through 2012 revenue sources are not comparable to 2013 due to the adoption of GASB 61.

The Nation does not assess property taxes or receive property taxes assessed on its behalf by any other governmental unit. Consequently, many of the statistical schedules usually found in a comprehensive annual financial report are not applicable to the Nation.

CHEROKEE NATION

**GENERAL GOVERNMENTAL EXPENSES BY FUNCTION (GAAP BASIS)
LAST TEN FISCAL YEARS (Dollars in Thousands)**

<u>Years</u>	<u>Tribal Government</u>	<u>Health Services</u>	<u>Education Services</u>	<u>Human Services</u>	<u>Community Services</u>	<u>Other Tribal Services</u>	<u>Interest on Long Term Debt</u>	<u>Tsa-La-Gi Apartments</u>	<u>Cherokee Trails Golf Club</u>	<u>Landfill Closure</u>	<u>Ranch Operations</u>	<u>EDTA</u>	<u>Childhood Development Center</u>	<u>Title VI</u>	<u>Other Enterprises</u>	<u>Total</u>
2013	\$ 28,885	\$ 256,465	\$ 57,076	\$40,432	\$ 72,344	\$ -	\$ 1,414	\$ 492	\$ -	\$ -	\$ -	\$ 124	\$ -	\$ 124	\$ -	\$ 457,356
2012	29,428	244,547	54,061	38,575	68,391	-	1,569	473	-	16	-	46	-	190	-	437,296
2011	29,678	224,634	52,348	38,588	63,814	-	1,722	459	-	154	-	67	-	302	-	411,766
2010	29,841	206,013	54,085	37,932	75,600	-	1,309	387	-	128	-	47	-	469	-	405,811
2009	29,323	179,806	46,200	36,231	72,334	-	1,525	393	-	-	-	73	-	826	-	366,711
2008	24,639	103,177	40,365	37,003	51,693	15,033	1,503	394	-	2,292	-	373	-	1,458	-	277,930
2007	21,624	92,163	39,096	28,962	49,131	15,650	3,044	388	-	2,853	-	139	-	-	18	253,068
2006	16,433	87,061	36,588	27,307	42,867	12,712	1,975	390	-	1,794	-	182	-	-	7	227,316
2005	17,023	79,344	33,429	24,824	35,060	10,623	1,651	352	-	2,252	-	1,115	1,048	-	15	206,736
2004	13,627	74,995	32,901	24,160	35,163	11,193	970	356	39	1,917	6	-	1,235	-	-	196,562

CHEROKEE NATION
OUTSTANDING DEBT BY TYPE
LAST TEN FISCAL YEARS (Dollars in Thousands)

Fiscal Year	Governmental Activities			Business-type Activities			Total Primary Government	Percentage of Personal Income*	Per each one*
	Bonds	Term Loans	Capital Leases	Term Loans	Capital Leases	Government			
2013	\$ 16,790	\$ 18,933	\$ -	\$ 9,976	\$ -	\$ 45,699	1.28%	\$ 433	
2012	18,585	20,925	130	13,349	-	52,989	1.59%	\$ 514	
2011	20,310	23,098	435	15,301	-	59,144	1.50%	\$ 495	
2010	21,970	25,406	729	18,169	-	66,274	1.86%	\$ 566	
2009	23,565	2,051	1,295	22,290	-	49,201	1.38%	\$ 420	
2008	28,460	2,564	1,821	26,403	-	59,248	1.75%	\$ 513	
2007	30,000	29,529	225	3,211	209	63,174	2.04%	\$ 572	
2006	-	36,258	600	3,352	295	40,505	1.43%	\$ 383	
2005	-	35,446	439	1,777	653	38,315	1.48%	\$ 372	
2004	-	25,331	523	849	368	27,071	1.12%	\$ 267	

Note: Details regarding the Nation's outstanding debt can be found in the notes to basic financial statements

* See Demographic and Economic Statistics for personal income, population, and per each one data.

CHEROKEE NATION

**PLEDGED-REVENUE COVERAGE
LAST SEVEN FISCAL YEARS (Dollars in Thousands)**

Fiscal Year	Health Revenue Bonds						
	Beginning Fund Balance	Revenues	Less: Expenses	Ending Fund Balance	Debt Service* Principal	Debt Service* Interest	Coverage
2013	\$ 34,076	\$ 227,368	\$ 224,899	\$ 36,545	\$ 1,795	\$ 797	14.10
2012	45,581	216,326	227,831	34,076	1,725	871	13.13
2011	43,820	211,620	209,859	45,581	1,660	940	17.53
2010	39,572	200,767	196,519	43,820	1,595	1,007	16.84
2009	14,014	183,734	158,176	39,572	4,706	1,480	6.40
2008	5,189	90,045	81,220	14,014	1,540	1,279	4.97
2007 **	7,697	74,750	77,258	5,189	-	582	8.92

Note: * Debt service coverage is based upon fund balance generated from Health Care System Operations.

** Bonds were not issued in prior fiscal years, therefore, coverage can only be reported on years after bond issuance.

CHEROKEE NATION

DEMOGRAPHIC AND ECONOMIC STATISTICS LAST TEN FISCAL YEARS

<u>Year</u>	<u>Population**</u>	<u>Personal Income*** (Dollars in Thousands)</u>	<u>Per Each One Personal Income****</u>	<u>Unemployment Rate*****</u>
2013 *	1,172,064	\$ 3,569,576	\$ 33,789	5.4
2012 *	1,168,624	3,340,215	32,406	5.2
2011 *	1,167,294	3,947,252	33,015	5.9
2010 *	1,155,961	3,755,250	31,745	6.9
2009 *	1,144,628	3,572,586	30,524	6.9
2008 *	1,134,098	3,392,628	29,350	3.8
2007	1,122,869	3,097,833	28,034	4.3
2006	1,108,570	2,829,313	26,782	4.3
2005	1,094,425	2,584,685	25,116	4.5
2004	1,088,279	2,422,702	23,898	4.8

Source: Oklahoma State Data Center - Oklahoma Department of Commerce
County Intercensal Population Estimates: 1990-2007
US Department of Labor: Bureau of Labor Statistics Data

Notes:

- * Estimate projected based on previous trends by Cherokee Nation Financial Resources Department
- ** Population data for Counties within the Cherokee Nation Jurisdictional Boundaries
- *** Personal income information from the Bureau of Economic Analysis
- **** Per each one personal income information from Oklahoma State Data Center - OK Dept of Commerce
- ***** Unemployment Rate September period rate from the Bureau of Labor Statistics Data

CHEROKEE NATION

PRINCIPAL EMPLOYERS

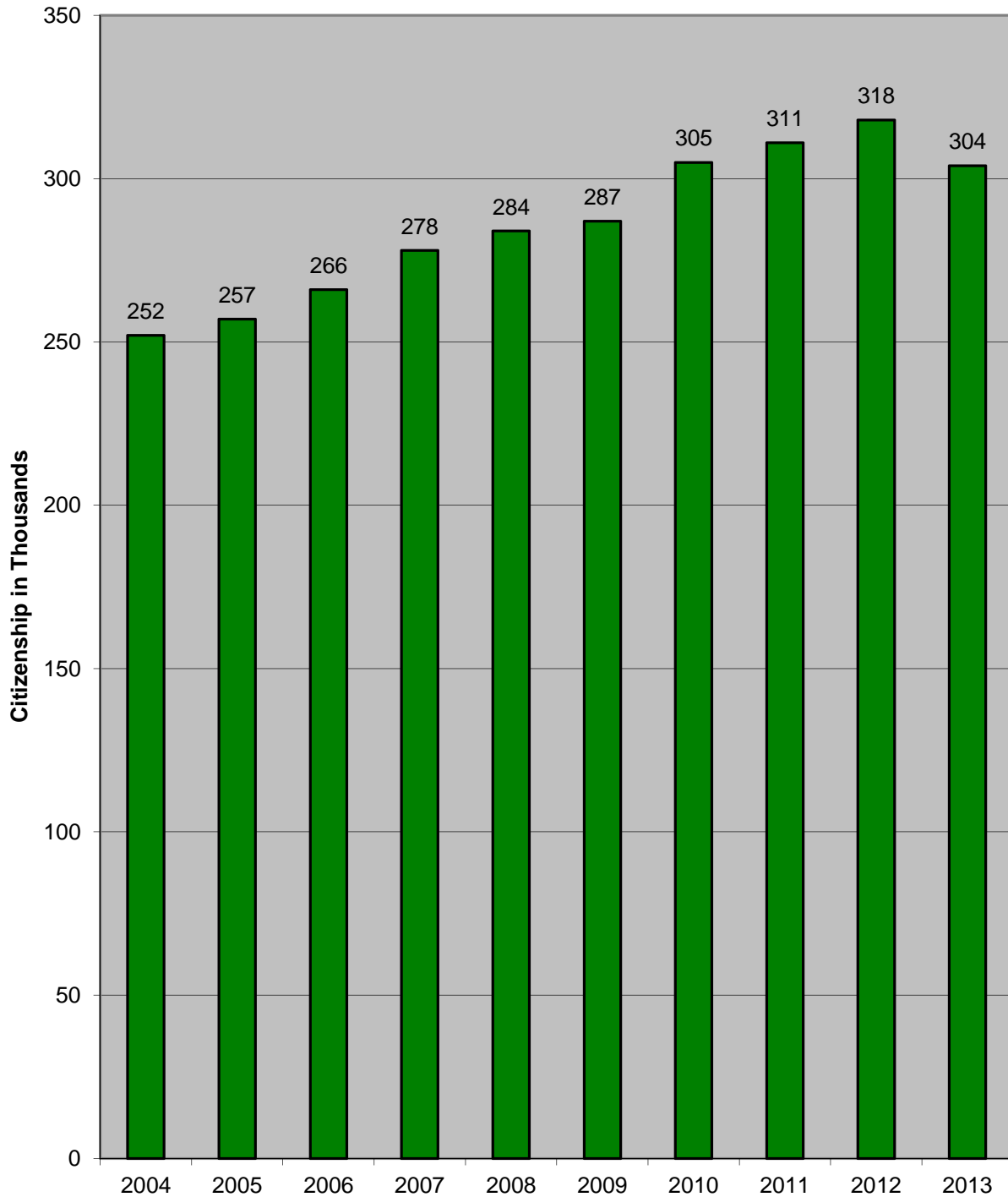
CURRENT YEAR AND NINE YEARS AGO

Employer	2004			2013		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
American Airlines & AA	9,100	1	41.03%	5,750	2	22.77%
Cherokee Nation *	1,790	3	8.07%	9,000	1	35.64%
Claremore City Schools	670	10	3.02%	750	7	2.97%
Conoco Phillips	2,400	2	10.82%	1,750	4	6.93%
Georgia Pacific Consumer Products	1,650	4	7.44%	750	8	2.97%
Mid-Western Aircraft Systems Inc	-	-	0.00%	2,250	3	8.91%
Labinal Inc	502	10	2.26%	-	-	0.00%
NORDAM Group Inc	1,250	7	5.64%	-	-	0.00%
Northeastern Oklahoma State University	1,650	5	7.44%	1,250	5	4.95%
Owasso Indepent School Dist #1-11	945	8	4.26%	1,250	6	4.95%
Tahlequah School District	620	9	2.80%	750	9	2.97%
Whirlpool Corporation	1,600	6	7.21%	750	10	2.97%
	<u>22,177</u>		<u>100%</u>	<u>24,250</u>		<u>96%</u>

Source: Oklahoma Department of Commerce

*Including component units

**CHEROKEE NATION
Tribal Citizenship**



Source: Tribal Registration Department

In Fiscal Year 2013, the Nation purchased the Social Security Death Index listing. The decline in Tribal Citizenship growth is attributable to the removal of citizens identified as deceased via the Index.

CHEROKEE NATION
TRIBAL CITIZENSHIP BY DISTRICT
LAST TEN FISCAL YEARS

District*	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Cherokee	15,218	15,706	16,116	16,759	17,242	17,603	18,688	19,120	19,830	20,443
Craig	6,434	6,626	6,868	6,998	7,086	7,137	7,427	7,431	7,515	7,823
Delaware	12,189	12,565	12,879	13,117	10,098	10,317	10,946	11,311	11,587	12,657
Keeler	12,074	12,479	13,158	13,527	13,834	13,991	14,666	14,698	14,947	15,300
Mayer	10,025	10,360	10,605	10,922	11,113	11,231	11,843	12,069	12,284	11,987
Sequoyah	11,986	12,274	12,591	12,868	13,088	13,247	13,769	13,893	14,189	14,204
Three Rivers	14,142	14,510	15,021	15,336	15,564	15,710	16,478	16,594	16,832	8,642
Trail of Tears	10,737	11,083	11,376	11,666	12,054	12,286	12,877	13,110	13,318	12,987
Will Rogers	9,868	10,259	10,666	11,009	8,105	8,396	9,270	9,755	10,237	15,266
Other	149,016	150,681	157,181	166,089	176,229	178,051	189,011	193,271	197,088	184,895
Total Citizenship	251,689	256,543	266,461	278,291	284,413	287,969	304,975	311,252	317,827	304,204

Source: Tribal Registration Department

* The Nation currently has a 15 district map of the Nation's jurisdictional areas. For comparative purposes, the distribution of the Nation's citizenship is shown in the original nine district breakout. Reports have been compiled similarly to prior years' reporting to maintain consistency.

CHEROKEE NATION

TRIBAL LAND BASE (ACRES) BY COUNTY AS OF SEPTEMBER 30, 2013

County	Tribal Land	Government Land	Restricted Individual	Total Acres
<u>Cherokee Nation:</u>				
Oklahoma:				
Adair	14,802	19	10,271	25,092
Cherokee	1,978	325	9,439	11,742
Craig	327	-	1,843	2,170
Delaware	25,023	10	6,503	31,536
McIntosh	-	-	596	596
Mayes	373	10	5,364	5,747
Muskogee	500	-	2,342	2,842
Nowata	34	-	610	644
Ottawa	-	-	79	79
Rogers	536	10	801	1,347
Sequoyah	2,896	46	5,623	8,565
Tulsa	47	-	204	251
Wagoner	-	-	225	225
Washington	240	-	1,719	1,959
Arkansas Riverbed	14,715	-	-	14,715
<u>Counties Outside Territorial Boundaries:</u>				
Oklahoma:				
Kay	4,230	-	-	4,230
Atoka	10	-	-	10
Choctaw	40	-	-	40
Pittsburg	10	-	-	10
Stephens	80	-	-	80
Texas:				
Red River	630	-	-	630
Dallas	5	-	-	5
Paris	66	-	-	66
Total	<u>66,542</u>	<u>420</u>	<u>45,619</u>	<u>112,581</u>

Source: Cherokee Nation Real Estate Services

CHEROKEE NATION

PRIMARY GOVERNMENT EMPLOYEES BY FUNCTION

LAST TEN FISCAL YEARS

Regular full-time employees only

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
Function:										
Tribal Government	232	230	230	238	259	528	466	481	472	489
Health Services	629	627	639	640	726	924	1,039	1,112	1,198	1,270
Education Services	393	399	391	387	408	427	474	460	444	442
Human Services	234	251	249	276	291	304	313	322	328	328
Community Services	128	127	182	163	329	362	441	432	428	296
Other Tribal Services	213	236	226	243	241	-	-	-	-	-
Total	<u>1,829</u>	<u>1,870</u>	<u>1,917</u>	<u>1,947</u>	<u>2,254</u>	<u>2,545</u>	<u>2,733</u>	<u>2,807</u>	<u>2,870</u>	<u>2,825</u>

Source: Financial Resources Department

CHEROKEE NATION

**OPERATING INDICATORS BY FUNCTION
LAST TEN FISCAL YEARS**

Function/Program	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Health Services										
Primary provider visits*	109,379	117,270	121,650	119,358	124,824	268,238	301,824	330,050	330,934	345,719
Dental patient visits	25,482	22,199	21,436	23,050	21,543	37,786	43,914	30,806	55,402	61,274
Behavioral health patient visits	10,148	9,895	9,969	10,322	11,284	16,222	8,969	7,812	13,462	11,428
Optometry patient visits	13,700	13,472	14,259	14,548	15,808	23,031	17,781	25,250	25,561	25,467
Pharmacy patient visits	61,225	69,151	70,937	74,976	79,487	119,075	247,299	307,394	379,191	435,855
Other visits**	72,775	77,307	80,133	76,259	71,820	124,490	122,922	137,255	157,386	195,283
Pharmacy prescription filled	410,909	461,409	474,299	500,675	501,601	672,905	1,086,505	1,461,526	1,678,692	1,828,359
Number of new charts	8,407	7,166	7,074	6,659	7,615	11,605	10,103	9,796	10,555	10,988
Total number of charts	139,066	149,861	159,128	168,467	179,416	342,148 ***	356,142	370,794	388,763	406,898
*Primary provider visits include physician, physician's assistant, nurse practitioner										
** Other visits include: PHN, WIC, education, dietary, laboratory services										
*** 2009 included CN WW Hastings Hospital acquisition										
Education Services										
Higher Education applications received	2,376	2,708	2,569	2,193	2,304	2,512	2,980	3,158	3,828	3,287
Higher Education applications funded	2,085	2,236	2,164	2,095	2,108	2,141	2,768	3,033	2,447	3,065
Head Start students	260	284	317	838	355	328	384	344	324	305
Immersion Class students	-	-	25	42	30	49	47	56	100	105
Sequoyah High School students	372	382	400	381	383	394	395	342	284	379
Human Services										
Child Care children served through subsidy	3,742	3,606	3,708	3,649	3,854	4,537	3,333	3,724	3,230	3,040
Child Care contracted providers	1,075	994	915	801	729	636	725	614	622	546
Child Care technical assistance calls and visits	3,083	1,397	1,358	2,178	3,053	5,614	3,961	2,886	1,967	1,965
Child Care monitoring visits to caregivers	1,092	1,122	1,236	1,124	1,124	957	1,031	1,020	1,038	1,001
Food Distribution - individuals served	139,588	131,970	111,139	105,768	114,305	130,253	121,788	104,926	110,394	109,579
Food Distribution - households served	52,768	50,892	44,863	43,237	46,049	51,716	49,640	52,087	47,582	47,428
Tribal Work Experience program participants	308	313	192	13	-	-	-	-	-	-
Elder Service Advocacy individuals served	1,236	1,192	1,353	1,431	1,064	642	640	572	252	279
Community Services										
Roads/bridges project miles completed	97.24	96.01	101.72	66.12	128.7	58.22	133.15	50.95	72.82	51.49
Families served through rental assistance	n/a	2,121	3,695	2,927	2,578	1,546	1,549	1,366	1,929	2,189
Families subsidized in Title VI units	n/a	317	345	-	305	295	274	274	268	238
Rehabilitation of privately owned homes	n/a	89	119	305	565	209	315	346	379	609
Acquired or constructed individual homes for low-income families	n/a	34	31	1	13	12	14	9	40	38
Businesses funded through Commerce programs	n/a	4	6	7	12	21	28	53	20	28
Participants enrollments in IDA/YIDA	n/a	30	28	42	24	30	104	131	130	146

Source: Departments/programs as listed

CHEROKEE NATION

CAPITAL ASSET UTILIZATION BY FUNCTION

PRIMARY GOVERNMENT

LAST TEN FISCAL YEARS

(Net of Depreciation, Dollars in Thousands)

	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Governmental activities:										
Tribal Government	\$ 3,068	\$ 2,520	\$ 2,969	\$ 2,424	\$ 3,013	\$ 41,269	\$ 40,956	\$ 42,732	\$ 43,950	\$ 49,706
Health Services	1,847	2,197	12,883	33,898	41,238	45,261	46,134	60,260	84,086	88,522
Education Services	578	1,098	8,246	8,885	9,479	9,622	9,968	10,323	10,124	10,067
Human Services	436	328	242	396	571	902	1,173	1,111	1,502	6,205
Community Services	842	1,035	1,384	2,189	3,264	2,715	3,336	5,137	6,947	4,555
Other Tribal Services	27,984	33,620	30,719	32,502	37,251	-	-	-	-	-
Governmental activities, net	<u>\$ 34,755</u>	<u>\$ 40,798</u>	<u>\$ 56,443</u>	<u>\$ 80,294</u>	<u>\$ 94,816</u>	<u>\$ 99,769</u>	<u>\$ 101,567</u>	<u>\$ 119,563</u>	<u>\$ 146,609</u>	<u>\$ 159,055</u>
Business -type activities:										
Enterprise Funds	\$ 5,605	\$ 6,851	\$ 6,761	\$ 900	\$ 599	\$ 548	\$ 645	\$ 588	\$ 533	\$ 483
Business-type activities, net	<u>\$ 5,605</u>	<u>\$ 6,851</u>	<u>\$ 6,761</u>	<u>\$ 900</u>	<u>\$ 599</u>	<u>\$ 548</u>	<u>\$ 645</u>	<u>\$ 588</u>	<u>\$ 533</u>	<u>\$ 483</u>

CHEROKEE NATION

**CHEROKEE STUDENTS BY DISTRICT
LAST TEN FISCAL YEARS**

District*	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Cherokee	3,976	4,071	4,097	4,079	4,357	4,421	4,622	4,681	4,882	5,025
Craig	1,257	1,334	1,342	1,296	1,334	1,361	1,378	1,341	1,325	1,341
Delaware	2,236	2,205	2,311	2,315	2,302	2,310	2,336	2,372	2,524	2,689
Keeler	1,618	1,882	1,862	1,785	1,801	1,916	1,871	1,856	2,271	2,993
Mayes	1,906	1,896	2,020	2,062	2,152	2,126	2,199	2,321	2,387	2,411
Sequoyah	2,053	2,033	2,067	2,031	2,124	2,101	2,109	2,158	2,540	2,534
Three Rivers	2,225	2,318	2,468	2,569	2,680	2,713	2,851	2,936	2,850	2,948
Trail of Tears	2,073	2,108	2,151	2,261	2,260	2,403	2,504	2,466	2,337	2,576
Will Rogers	2,177	2,351	2,368	2,324	2,246	2,303	2,598	2,574	2,760	2,812
Total Cherokee Students	<u>19,521</u>	<u>20,198</u>	<u>20,686</u>	<u>20,722</u>	<u>21,256</u>	<u>21,654</u>	<u>22,468</u>	<u>22,705</u>	<u>23,876</u>	<u>25,329</u>

Counties included in districts:

- Cherokee (Cherokee)
- Craig (Craig/Nowata)
- Delaware (Delaware/Ottawa)
- Keeler (Tulsa/Washington)
- Mayes (Mayes)
- Sequoyah (Sequoyah)
- Three Rivers (Muskogee/Wagoner/McIntosh)
- Trail of Tears (Adair)
- Will Rogers (Rogers)

* The Nation currently has a 15 district map of the Nation's jurisdictional areas. For comparative purposes, the distribution of the Nation's citizenship is shown in the original nine district breakout. Reports have been compiled similarly to prior years' reporting to maintain consistency.

Source: MVT apportionment

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