

CHEROKEE NATION

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TAHLEQUAH, OKLAHOMA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FISCAL YEAR ENDED
SEPTEMBER 30, 2005

CHEROKEE NATION

Tahlequah, Oklahoma



COMPREHENSIVE ANNUAL FINANCIAL REPORT

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SEPTEMBER 30, 2005**

**Prepared by
Financial Resource Group**

CHEROKEE NATION
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 FOR THE YEAR ENDED SEPTEMBER 30, 2005

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INTRODUCTORY SECTION



CHEROKEE NATION

P.O. Box 948
Tahlequah, OK 74465-0948
918-453-5000

Chad "Corntassel" Smith
ᏆᏏᏁᏏ
Principal Chief

Joe Grayson
ᏆᏏᏁᏏ ᏆᏏᏁᏏ
Deputy Principal Chief

April 27, 2006

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

We are pleased to submit the Comprehensive Annual Financial Report of the Cherokee Nation (the "Nation" or "Tribe") for the fiscal year ended September 30, 2005. 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, 2005.

A comprehensive analysis of the Nation's financial position and activities for the year are contained in this report. It has been prepared by the Nation's Financial Resources Group and conforms to the "pyramid" approach to governmental financial reporting as prescribed in National Council on Government Accounting ("NCGA") Statement 1, "Governmental Accounting and Financial Reporting Principles." The Comprehensive Annual Financial Report is organized into three distinct sections:

1. **Introductory Section**--The introductory section includes this transmittal letter, a list of tribal officials and the Nation's organizational chart.
2. **Financial Section**--This section includes the report of the Nation's independent auditors, management's discussion and analysis, the basic financial statements, notes to the basic financial statements, combining and individual fund financial statements, and a schedule of budget to actual for the enterprise funds.
3. **Statistical Section**--The statistical section presents selected financial, demographic, or geographical information, generally presented on a multi-year basis, and intended to enhance the reader's understanding of the Nation's financial activities.

Organization of the Government

The Nation is the federally recognized government of the Cherokee people and has sovereign status granted by treaty and law. The Nation is the second largest federally recognized tribe in the United States and is located within the 14 counties of northeastern Oklahoma. The boundary runs 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 Nation has a tripartite form of government designed after the original democratic form of government of the Iroquois that was adopted by the United States. The Cherokee Constitution was ratified by the majority of voting Cherokees and approved by the Commissioner of Indian Affairs on September 5, 1975. This Constitution defines the distribution and separation of powers among the three branches of government. The three branches and their respective powers include the:

- (1) **Executive Branch**--the executive power is vested in the Principal Chief, currently Chadwick "Cornstassle" Smith. 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, currently Joe Grayson, Jr., is empowered to act as directed by the Principal Chief and also acts as President of the Tribal Council.
- (2) **Legislative Branch**--the Legislature consists of fifteen (15) tribal council members, who are members of the Cherokee Nation. The Tribal Council is elected to four-year terms from the nine districts of the Cherokee Nation. The role of the Tribal Council is to adopt legislation and to conduct other business in the best interest of the Cherokee people.
- (3) **Judicial Branch**--the Judicial Branch consists of the Judicial Appeals Tribunal and the Cherokee Nation District Court. Tribunal members are appointed by the Principal Chief and confirmed by the Tribal Council. The primary responsibility of the Judicial Appeals Tribunal 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. It is composed of a District and an Associate District Judge.

Between 1907 and 1971, the President of the United States appointed the Principal Chief of the Cherokee Nation. Special Congressional legislation was enacted to restore elective rights to the Cherokee people and, in 1971 W. W. Keeler became the first elected Principal Chief of the Cherokee Nation. In 1975, Ross O. Swimmer was elected to the office of the Principal Chief and was re-elected in 1979 and 1983. In December 1985, Ross O. Swimmer resigned as Principal Chief of the Nation to become the Assistant Secretary of the Department of Interior for the Bureau of Indian Affairs. Wilma P. Mankiller, formerly Deputy Chief, was appointed Principal Chief and was elected to consecutive four-year terms in 1987 and 1991. Wilma Mankiller chose not to seek re-election in 1995. Joe Byrd was elected as Principal Chief in 1995. In 1999, Chad Smith was elected as Principal Chief. In May 2003, he was re-elected as Principal Chief and has continued his mission of improving services, increasing cultural awareness and increasing the resources for the betterment of the Cherokee Nation throughout 2005.

Government Services Provided

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. There are two members currently appointed to the Principal Chief's Cabinet, the Secretary-Treasurer and the General Counsel. The Secretary-Treasurer provides oversight and direction to the Financial Resources Group. The General Counsel represents the Cherokee Nation in all legal proceedings and

submits written opinions on all questions affecting the public interests or when required by the Principal Chief.

The staff of the Principal Chief includes the Group Leaders of the respective groups who provide oversight and general direction. The three major Teams are Direction, Service, and Resources.

These Teams are comprised of the following:

1. Direction Team
 - a. Government Relations
 - b. Strategy
 - c. Solutions Development
 - d. Communications
2. Service Team
 - a. Education Services
 - b. Health Services
 - c. Community Services
 - d. Commerce Services
 - e. Human Services
 - f. Career Services
3. Resource Team
 - a. Legal Resources
 - b. Financial Resources
 - c. Human Resources
 - d. Tribal Resources
 - e. Government Resources
 - f. Information Systems

Reporting Entity

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

- Housing Authority of the Cherokee Nation ("HACN")
- Cherokee Nation Enterprises, Inc. ("CNE")
- Cherokee Nation Industries, Inc. ("CNI") and related companies
- Cherokee Nation Businesses, Inc. ("CNB")
- Cherokee Nation Home Health Services, Inc. ("CNHHS")
- Cherokee Nation Economic Development Trust Authority ("EDTA")
- Cherokee Nation Comprehensive Care Agency ("Agency")

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.

Excluded Organizations

During 2005, the following organizations did not meet the criteria for inclusion in the reporting entity and accordingly their financial operations are excluded from this report.

Cherokee Nation Education Foundation
Cherokee National Historical Society
Adair County Indian Credit Association
Section 202 Housing Projects--except for Tsa-La-Gi Apartments
Environmental Advisory Group

Financial Information

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 generally accepted accounting principles. 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.

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 for the fiscal year ended September 30, 2005, are included in a separately issued Single Audit Report.

Budget - 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 Secretary-Treasurer and with advisement from the Controller, shall formulate an annual appropriations bill. The bill shall contain the legal budgeted annual revenue and expenditures for the general fund, and enterprise funds, 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. The Executive and Finance Committee of the Council, upon direction of the Secretary-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 full 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.

Economic Outlook

Since fiscal year 2002, the Cherokee Nation primary government has increased its total assets by approximately \$137,000,000 or 101%. This growth is aligned with our vision for the Cherokee Nation as stated in the Declaration of Designed Purpose. This vision states, "The Cherokee Nation shall achieve and maintain an enriching cultural identity, economic self-reliance, and a strong government." Through expansion of its component units, the Nation is working to establish a self-reliant economy for the citizens of the Nation.

In addition to the expansion of component units, the Nation has been successful in partnering with local governments to attract new industries and create jobs within the Nation's jurisdiction.

Use of the Report

This report will be submitted to the U.S. Department of Interior, Office of Inspector General, 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 consistent with the administration 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 are expected to have a significant effect on the Nation's financial position or results of operations.

Certificate of Achievement

Cherokee Nation was awarded the Government Finance Officers Association (GFOA) of the United States and Canada, Certificate of Achievement for Excellence in Financial Reporting for its comprehensive annual financial report for the fiscal year ended September 30, 2004. This was the fourth consecutive year that the government has achieved this prestigious award. The GFOA awards this certification to governmental entities which publish comprehensive annual financial reports in compliance with GAAP and legal requirements in an understandable and well-organized form.

Acknowledgements

The preparation of the 2005 Comprehensive Annual Financial Report (CAFR) was an extremely complex task requiring the professional skills of the entire Financial Resources Group. We would like to express our gratitude to the Financial Resources Group for their dedication and hard work. We would also like to thank Deloitte & Touche LLP, independent auditors for the Cherokee Nation, for the guidance and technical assistance in completing this CAFR.

Respectfully submitted,

A handwritten signature in cursive script that reads "Callie Catcher". The signature is fluid and elegant, with the first name "Callie" and the last name "Catcher" clearly distinguishable.

Callie Catcher
Secretary-Treasurer

Cherokee Nation Tribal Officials 2005

EXECUTIVE BRANCH

Chadwick "Cornfassle" Smith

Principal Chief

Joe Grayson, Jr.

Deputy Principal Chief

LEGISLATIVE BRANCH

Bill John Baker
District 1
Cherokee

Jackie Bob Martin
District 2
Trail of Tears

Don Garvin
District 4
Three Rivers

Meredith A. Frailey
District 6
Mayes

Buel Anglen
District 8
Oologah

Audra Smoke-Connor
District 1
Cherokee

David Thornton, Sr.
District 3
Sequoyah

Linda Hughes-O'Leary
District 5
Delaware

John F. Keener
District 6
Mayes

William G. "Bill" Johnson
District 8
Oologah

S. Joe Crittenden
District 2
Trail of Tears

Phyllis Yargee
District 3
Sequoyah

Melvina Shotpouch
District 5
Delaware

Cara Cowan-Watts
District 7
Will Rogers

Charles "Chuck" Hoskin
District 9
Craig

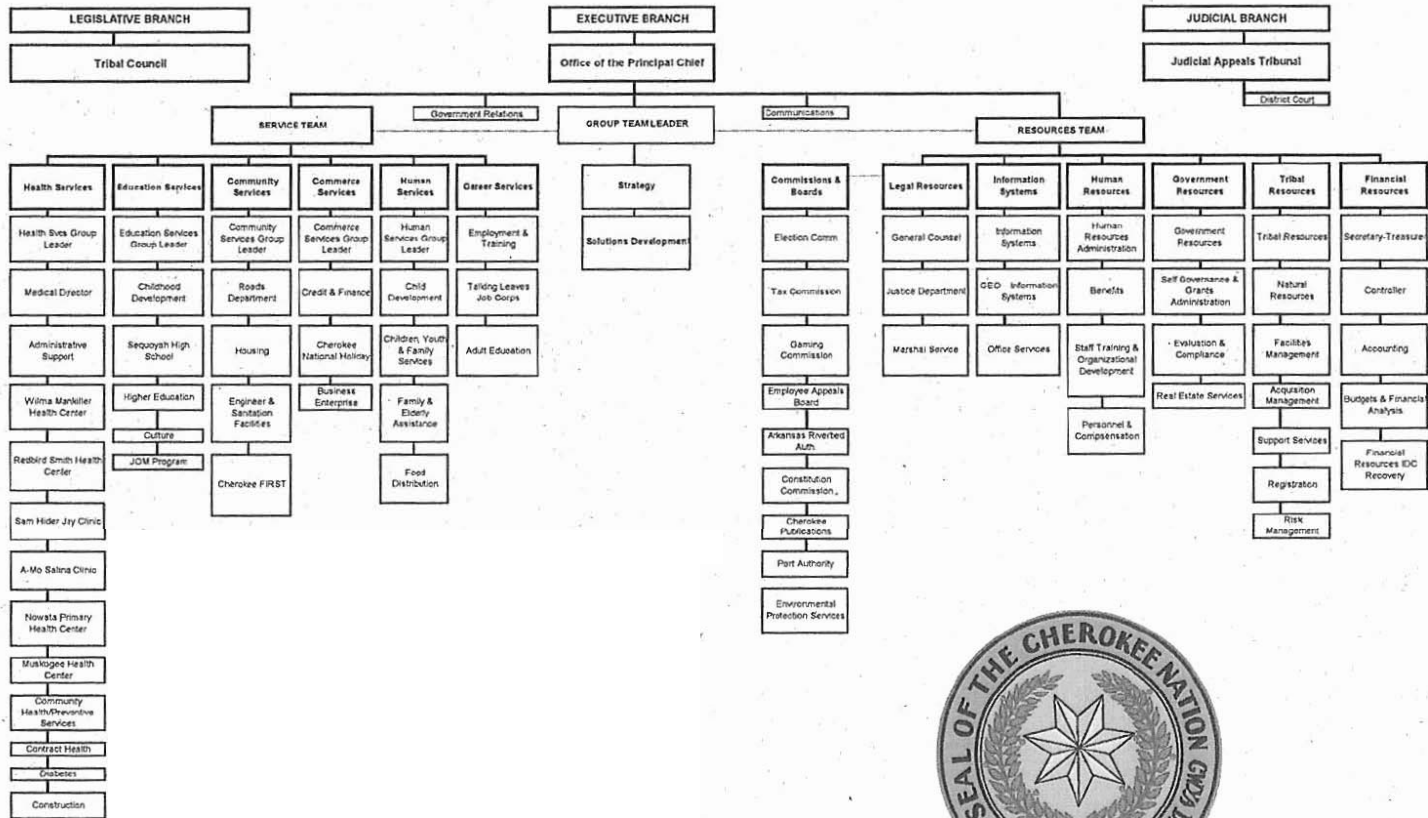
JUDICIAL BRANCH

Darrell R. Dowty
Justice

Stacy Leeds
Justice

Darell R. Matlock
Chief Justice

CHEROKEE NATION ORGANIZATIONAL STRUCTURE Fiscal Year 2005



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, 2004

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



Carla E. Fudge

President

Jeffrey R. Emer

Executive Director

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

To the Principal Chief and Tribal Council
of the Cherokee Nation

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, 2005, which collectively comprise the Nation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Nation's management. Our responsibility is to express opinions on the respective financial statements based on our audit. We did not audit the financial statements of Cherokee Nation Home Health Services, Inc. ("CNHHS") or Cherokee Nation Industries, Inc., CND, LLC, and Cherokee Medical Services, LLC (collectively "CNI"), which are discretely presented component units of the Nation. The financial statements for CNHHS and CNI, which collectively comprise 8% of total assets and 23% of total operating revenues of the aggregate discretely presented component units, were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for the component units, are based 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 of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Nation's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, 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 Nation as of September 30, 2005, and the respective changes in financial position and respective cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 26, 2006 on our consideration of the Nation's internal control over financial reporting and on 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* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis on pages 12 through 22 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This information is the responsibility of the Nation's management. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and we do not express an opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nation's basic financial statements. The introductory section, combining financial statements and budgetary schedule listed in the foregoing table of contents as other supplementary information are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Nation. This supplementary information is the responsibility of the Nation's management. The combining financial statements and budgetary schedule have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole. The Introductory Section and Statistical Section have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Debitte & Touche LLP

April 26, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Nation's management provides Management's Discussion and Analysis 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, 2005. 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 – PRIMARY GOVERNMENT

- The Nation's assets exceeded its liabilities at the end of fiscal year 2005 by \$125 million (net assets). Of this total amount, \$66 million are unrestricted net assets that may be used to meet the government's ongoing obligations.
- The Nation's overall liabilities increased by approximately \$17 million to \$148 million.
- The net assets increased by \$5 million, which is largely attributable to an increase in dividends from component units and increases in revenues from motor fuels taxes.

OVERVIEW OF THE 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. A brief description of the basic financial statements follows:

Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the Nation, the *Government-Wide Financial Statements* and the *Fund Financial Statements*. The basic financial statements also include *Notes to the Basic Financial Statements*, which explain and provide additional detail about some of the information contained in the 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 the economic resources management focus. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities.

The *Statement of Net Assets* presents the assets and liabilities for the entire Nation, with the difference reported as "net assets." Increases or decreases in net assets 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 assets changed during the fiscal year. All changes in net assets 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* – This section presents information about activities supported by 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, community services, and other tribal services.
- *Business-Type Activities* – These types of 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 business type activities of the Nation include the Landfill Operations, Tsa-La-Gi Apartments, EDTA, Childhood Development Centers, and Other Enterprise Activities.
- *Discretely Presented Component Units* – These 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:

- Housing Authority of the Cherokee Nation ("HACN")
- Cherokee Nation Enterprises, Inc. ("CNE")
- Cherokee Nation Industries, Inc. ("CNI") and related companies
- Cherokee Nation Businesses, Inc. ("CNB")
- Cherokee Nation Home Health Services, Inc. ("CNHHS")

Complete financial statements for each of the component units can be obtained from their respective administrative offices, or by contacting Cherokee Nation, Office of the Controller.

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 – Most of the services provided by the Nation are financed and reported through the governmental funds. 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.

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 25 and 27 of the financial statements.

The Nation maintains four 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 four major governmental funds are the General Fund, Self Governance DOI Roads, Self Governance DHHS, and Housing and Urban Development funds. In addition, the Nation maintains fourteen nonmajor funds, including two permanent funds, Sequoyah Endowment and Gammon Educational Trust, to account for other governmental activity. The governmental fund statements can be found on pages 25 and 26 of this report.

Proprietary Funds – These funds are used to show activities which operate similar to private-sector enterprises. Because these funds charge fees for goods and services provided to the Nation and outside customers, they 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 29 - 31 immediately following the governmental fund financial statements. The Nation's propriety funds include Enterprise and Internal Service Funds, which are described below.

Enterprise Funds – The Nation has five nonmajor enterprise funds. The funds are the Nation’s Landfill Operations, Tsa-La-Gi Apartments, EDTA, Child Development Centers, and Other Enterprises. The nonmajor enterprise combining financial statements can be found on pages 76 - 78 of this report.

Internal Service Funds – The 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* – used to account for the cost to maintain buildings for use by other funds of the Nation.
- *Force Accounts* – used to acquire and maintain equipment and supplies used by other funds of the Nation.
- *Fringe Pool* – 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* – used to account for the cost of providing certain services, such as accounting, human resources, and acquisition management, to other funds of the Nation.
- *Construction Management* – used to account for the cost to manage construction of buildings for use by other funds of the Nation.

The internal service funds combining financial statements can be found on pages 79 - 81 of this report.

Cherokee Nation Component Unit Financial Statements – As previously mentioned above, the component units are operations over which the Nation has financial accountability, but that 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 Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Fund Net Assets present detail for each of the five discretely presented component units.

The financial statements for component units can be found on pages 32 and 33 of this report.

Notes to the Basic Financial Statements

The notes to the 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 the basic financial statements can be found on pages 34 - 73 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 and internal service funds, and a budgetary comparison schedule for the Nation's enterprise funds.

COMPARATIVE ANALYSIS FOR MAJOR FUNDS

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

Major Fund		2005	2004	Increase/ (Decrease)	Percentage Increase/ (Decrease)
General Fund					
Revenues and transfers in	(1)	\$ 54,027	\$ 32,227	\$ 21,800	67.6 %
Expenditures and transfers out	(2)	39,073	23,387	15,686	67.1 %
Self Governance DOI Roads					
Revenues and transfers in	(3)	3,522	5,274	(1,752)	(33.2)%
Expenditures and transfers out	(3)	3,522	5,398	(1,876)	(34.8)%
Self Governance DHHS					
Revenues and transfers in	(4)	61,876	58,112	3,764	6.5 %
Expenditures and transfers out	(4)	63,428	58,726	4,702	8.0 %
Housing and Urban Development					
Revenues and transfers in	(5)	24,692	27,705	(3,013)	(10.9)%
Expenditures and transfers out	(5)	24,692	27,705	(3,013)	(10.9)%

- (1) Revenue increases for General Fund are primarily the result of increased dividends of \$6.2 million from Cherokee Nation Enterprises, increases in tax and license revenues of \$2.5 million and IHS Indirect Cost Settlement for fiscal years 1994 through 1997 of \$8.3 million.
- (2) General Fund expenditures and transfers out were more than FY2004, primarily due to increase in capital expenditures. There were also slight increases in salaries and fringe benefits, contract services, and general operating expenditures. The increase in contract services included expenditures for community work projects and an increased amount distributed from Motor Vehicle Tax to the schools and for highway construction.
- (3) Self Governance DOI Roads program reflects a decrease in revenue and expenditures, due to the status of several road projects which are in the design, environmental and right-of-way phases which represent a very small percentage of the total cost of the road, and also due to the completion of several road projects in FY2004.

- (4) Self Governance DHHS revenue was more in FY 2005 primarily due to increases in programmatic revenues received and increased third party revenues. Expenditures were more due to increases in salaries and fringe benefits.
- (5) Housing and Urban Development revenue and expenditure were less than FY2004 as a result of several small grants received in 2004, which were one time funding and the reduction of sub-grants to Housing Authority of the Cherokee Nation ("HACN") reflected in the IHP. These sub-grants are used by HACN to provide affordable housing to citizens.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

As stated earlier, the government-wide financial statements are presented to give a broad overview of the government as a whole. Total assets for the Nation's governmental activities at fiscal year ending September 30, 2005 were \$263 million. Of the \$263 million, \$41 million is 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 fiscal year end were \$143 million. Of this amount, approximately \$36 million related to long-term obligations primarily to finance capital asset acquisitions. Other liabilities represent accounts payable and deferred grant revenue and other obligations generally due within one year of the financial statement date.

The assets of the Nation's governmental activities exceeded liabilities at fiscal year ended September 30, 2005 by \$119 million, which is stated as net assets.

The Nation's business-type activities have total assets of \$9.6 million at fiscal year ending September 30, 2005. Of the \$9.6 million, \$7 million is related to investment in capital assets such as land, buildings and equipment. The liabilities related to these activities at fiscal year end were \$4.4 million. Of that amount, approximately \$2 million related to long-term obligations primarily to finance capital asset acquisitions. Other liabilities represent 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 fiscal year ended September 30, 2005 by \$5.2 million, which is stated as net assets. The following table presents the Nation's net assets for the primary government (in thousands):

Cherokee Nation's Net Assets

	Governmental Activities		Business-Type Activities		Total	
	2005	2004	2005	2004	2005	2004
Current and other assets	\$ 221,803	\$ 209,107	\$ 2,736	\$ 837	\$ 224,539	\$ 209,944
Capital assets	40,798	34,755	6,851	5,605	47,649	40,360
Total assets	<u>262,601</u>	<u>243,862</u>	<u>9,587</u>	<u>6,442</u>	<u>272,188</u>	<u>250,304</u>
Long-term debt outstanding	35,885	25,854	2,430	1,217	38,315	27,071
Other liabilities	<u>107,298</u>	<u>102,348</u>	<u>1,999</u>	<u>1,522</u>	<u>109,297</u>	<u>103,870</u>
Total liabilities	<u>143,183</u>	<u>128,202</u>	<u>4,429</u>	<u>2,739</u>	<u>147,612</u>	<u>130,941</u>
Net assets invested in capital assets, net of related debt	35,969	29,403	5,519	4,388	41,488	33,791
Restricted	16,822	20,691	-	-	16,822	20,691
Unrestricted	<u>66,627</u>	<u>65,566</u>	<u>(361)</u>	<u>(685)</u>	<u>66,266</u>	<u>64,881</u>
Total net assets	<u>\$ 119,418</u>	<u>\$ 115,660</u>	<u>\$ 5,158</u>	<u>\$ 3,703</u>	<u>\$ 124,576</u>	<u>\$ 119,363</u>

For the primary government, \$41 million of the net assets balance represents investment in capital assets, net of related debt. Restricted net assets represent external restrictions placed upon assets of the Nation. The largest category of restricted net assets is related to net assets restricted for specific program purposes. Of the total net assets, \$66 million is reported as unrestricted net assets. The unrestricted net assets represent amounts available for future services for the Nation's citizens, obligations, and creditors.

At September 30, 2005, the Nation reported positive net assets for the government as a whole, as well as for its separate governmental and business-type activities.

Changes in Net Assets

The Nation's net assets increased by \$5 million or 4% during the course of the year. Total revenues for fiscal year ended September 30, 2005 were \$212 million. Total expenses of the Nation were \$207 million, which cover a variety of services. Approximately 38% of the total expenses were for health care for Tribal members. In total, governmental-type revenue exceeded expenses by \$3.8 million resulting in an increase in net assets. Tribal Government expenses increased by \$3 million as a result of increased revenues which allowed for funding of new initiatives. Health expenses increased by \$4 million which were mainly attributable to contract health services. Net revenues for business-type activities exceeded expenses by \$1.5 million. The changes in net assets during 2005 are as follows (in thousands):

Cherokee Nation's Changes in Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2005	2004	2005	2004	2005	2004
Revenues:						
Program revenues:						
Charges for services	\$ 2,001	\$ 1,237	\$ 3,192	\$ 3,045	\$ 5,193	\$ 4,282
Operating grants and contributions	104,278	100,209	104	-	104,382	100,209
General revenues:						
Motor fuel tax	8,094	7,576	-	-	8,094	7,576
Motor vehicle tax	6,382	5,929	-	-	6,382	5,929
Tobacco tax and fees	3,133	2,142	-	-	3,133	2,142
Sales tax	686	511	-	-	686	511
Unrestricted investment earnings	3,011	1,588	52	19	3,063	1,607
Indirect Cost Settlement	-	11,634	-	-	-	11,634
Dividends from Component Units	17,919	11,717	-	-	17,919	11,717
Grants and contributions not restricted to specific programs	62,015	65,223	-	-	62,015	65,223
Miscellaneous	898	1,232	-	-	898	1,232
Equity interest in joint venture	184	-	-	-	184	-
Gain/(loss) on disposals	-	1	-	(125)	-	(124)
Total revenues	<u>208,601</u>	<u>208,999</u>	<u>3,348</u>	<u>2,939</u>	<u>211,949</u>	<u>211,938</u>
Expenses:						
Tribal government	17,023	13,627	-	-	17,023	13,627
Health Services	79,344	74,995	-	-	79,344	74,995
Education Services	33,429	32,901	-	-	33,429	32,901
Human Services	24,824	24,160	-	-	24,824	24,160
Community Services	35,060	35,163	-	-	35,060	35,163
Other Tribal Services	10,623	11,193	-	-	10,623	11,193
Interest on long-term debt	1,651	970	-	-	1,651	970
Total governmental expenses	<u>201,954</u>	<u>193,009</u>	<u>-</u>	<u>-</u>	<u>201,954</u>	<u>193,009</u>
Tsa-La-Gi Village Apartments	-	-	352	356	352	356
Cherokee Trails Golf Club	-	-	-	39	-	39
Landfill Operations	-	-	2,252	1,917	2,252	1,917
EDTA	-	-	127	-	127	-
Childhood Development Centers	-	-	1,048	1,235	1,048	1,235
Other Enterprises	-	-	15	6	15	6
Total business-type expenses	<u>-</u>	<u>-</u>	<u>3,794</u>	<u>3,553</u>	<u>3,794</u>	<u>3,553</u>
Total expenses	<u>201,954</u>	<u>193,009</u>	<u>3,794</u>	<u>3,553</u>	<u>205,748</u>	<u>196,562</u>
Increase in net assets before transfers	6,647	15,990	(446)	(614)	6,201	15,376
Transfers	(2,889)	150	1,901	(150)	(988)	-
Change in net assets	<u>3,758</u>	<u>16,140</u>	<u>1,455</u>	<u>(764)</u>	<u>5,213</u>	<u>15,376</u>
Net assets—Beginning of year	<u>115,660</u>	<u>99,520</u>	<u>3,703</u>	<u>4,467</u>	<u>119,363</u>	<u>103,987</u>
Net assets—End of year	<u>\$ 119,418</u>	<u>\$ 115,660</u>	<u>\$ 5,158</u>	<u>\$ 3,703</u>	<u>\$ 124,576</u>	<u>\$ 119,363</u>

As indicated earlier in this report, the increase in net assets in 2005 is largely attributable to the dividends from component units, increases in motor fuels taxes and increases in motor vehicle taxes.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Nation's capital assets, net of depreciation, at the end of fiscal year 2005 were \$48 million. The Nation has no public domain (infrastructure) fixed assets. The following table presents details of the Nation's capital assets, net of depreciation (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 9,913	\$ 81	\$ 9,994
Construction in process	\$ 5,350	-	\$ 5,350
Buildings and improvements	18,632	6,050	24,682
Equipment	6,881	720	7,601
Land improvements	<u>22</u>	<u>-</u>	<u>22</u>
Total capital assets	<u>\$ 40,798</u>	<u>\$ 6,851</u>	<u>\$ 47,649</u>

Additional information on the Nation's capital assets can be found in Note 8 on pages 55 - 57 of this report.

The Nation's long-term debt at the end of fiscal year 2005 was approximately \$38 million, primarily related to investments in capital assets and Title VI loan proceeds. The following is a summary of long-term debt at September 30, 2005 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Notes payable	\$ 35,446	\$ 2,430	\$ 37,876
Capital leases payable	<u>439</u>	<u>-</u>	<u>439</u>
Total long-term debt	<u>\$ 35,885</u>	<u>\$ 2,430</u>	<u>\$ 38,315</u>

The Nation, as a tribal government, has the ability to incur debt, similar to state and local governments. The Nation has entered into an agreement for up to \$50 million with Bank One, guaranteed by the United States Department of Housing and Urban Development's Title VI program. The purpose of the credit facility is to loan money to the HACN who, in turn, will use the money in the building of affordable housing for sale to eligible Tribal members. As of September 30, 2005, borrowings under this credit facility totaled approximately \$31 million. Additional information on the Nation's long-term debt can be found in Note 9 on pages 58 - 63 of this report.

SIGNIFICANT BUDGET VARIATIONS

The Nation's significant General Fund budget variations in 2005 were as follows (in thousands):

	Original Budget	Final Budget	Variance Increase/ (Decrease)		Percentage Increase/ (Decrease)	Actual		Variance Increase/ (Decrease)	Percentage Increase/ (Decrease)
Revenues:									
Taxes, licenses, and fees	\$ 8,544	\$ 8,941	\$ 397	(1)	5 %	\$ 11,741	(2)	\$ 2,800	31 %
Interest	45	45	-		0 %	1,046	(3)	1,001	2224 %
Indirect cost settlement	-	-	-		0 %	8,314	(4)	8,314	100 %
Dividends from component units	12,900	18,450	5,550	(5)	43 %	17,919		(531)	(3)%
Expenditures:									
Tribal Government	11,269	12,952	1,683	(6)	15 %	10,400	(7)	(2,552)	(20)%
Member Services	18,407	28,333	9,926	(8)	54 %	17,839	(9)	(10,494)	(37)%
Capital outlay	251	5,268	5,017	(10)	1999 %	8,188	(11)	2,920	55 %
Other sources/(uses):									
Transfers, net	(10,198)	(12,912)	(2,714)	(12)	27 %	2,795	(13)	15,707	(122)%

- (1) Increases in budgeted revenue were primarily the result of increases in revenues received by the Gaming Commission and from CNE.
- (2) Actual revenue was more than budget mainly due to increases in revenue from MVT and tobacco tax.
- (3) Actual interest income was higher than budgeted primarily due to rebounding interest rates for investments.
- (4) The IHS Indirect Cost Settlement was not budgeted due to uncertainties surrounding actual date that funds would be available for appropriation.
- (5) Increases in dividends from component units in the Final Budget are a result of increased profits at CNE.
- (6) Increases in budgeted expenditures in the Final Budget are the result of increased revenue projections, primarily from increased dividends from component units and carryover from prior year.
- (7) Expenditures for Tribal Government were approximately \$2 million less than budget, primarily due to decreases in contract services and operating expenditures.
- (8) Increases in budgeted expenditures in the Final Budget are the result of increased revenue projections, primarily from increased dividends from component units and carryover from prior year in Community Services, Education Services and Health Services.
- (9) Expenditures for Member Services were less than budget, primarily due to some projects being implemented for a partial year with carryover being requested and others related to decreases in contract services and operating expenditures.
- (10) The increase in the capital outlay final budget is primarily due to additions for land purchases utilizing settlement funds.
- (11) Capital outlays exceeded budget due to tribal construction in process.

(12) Increases in budgeted transfers, net were the result of increased revenues available.

(13) Net transfers were more than budget, primarily due to budgeted, but unspent, funds for Health Facilities and Sequoyah High School construction projects.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

The Nation is currently in the process of several major projects, which will influence the future of the Nation. The Health Services facilities are under construction in Nowata, Sallisaw and Muskogee. The Education Services group is coordinating construction on the Sequoyah High School Multi-purpose Center and a new Ballpark for its students and surrounding communities. Community Services will continue to provide affordable housing for Tribal members.

Budgeted expenditures and transfers for the Nation's General Fund for fiscal year 2006 total \$69 million, a decrease of \$7 million from the final amounts budgeted for fiscal year 2005.

Cherokee Nation Enterprises ("CNE") gaming activities competition for gaming customers continues to increase in Northeastern Oklahoma as other tribes continue to expand operations, however customers demand remain strong. CNE continues to look at expanding existing facilities and adding new ones to take advantage of market opportunities. Construction is underway on facilities at Sallisaw, Oklahoma and Tahlequah, Oklahoma. CNE also purchased a travel plaza located adjacent to the Roland facility. The existing structure has been razed and construction on a new travel plaza is expected to be completed in 2006. In addition construction has begun on a remodel of the existing Roland facility which is expected to be completed in 2006.

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. Questions concerning any of the information contained in this report or requests for additional financial information should be directed to the Nation's Controller's Office, Post Office Box 809, Tahlequah, Oklahoma, 74465.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CHEROKEE NATION

**STATEMENT OF NET ASSETS
SEPTEMBER 30, 2005
(Dollars in Thousands)**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 73,805	\$ 1,968	\$ 75,773	\$ 52,410
Investments	62,393	11	62,404	11,026
Accounts receivable, net	20,883	356	21,239	18,450
Interest receivable	-	-	-	329
Mortgages receivable, Title VI and partnerships, current	-	-	-	515
Due from other funds - Internal Balances	2,807	(2,807)	-	-
Due from primary government	-	-	-	-
Due from component units	1,292	-	1,292	-
Inventories	816	-	816	13,814
Prepaid expenses	-	-	-	184
Notes receivable	1,863	150	2,013	2,909
Deferred income taxes	-	-	-	480
Other current assets	803	2	805	2,270
Restricted cash, cash equivalents and investments	27,607	1,804	29,411	13,171
Long-term notes receivable	29,202	1,252	30,454	2,862
Long-term mortgages receivable, Title VI and partnerships	-	-	-	26,626
Other assets	-	-	-	1,698
Investment in joint ventures/partnerships	332	-	332	1,399
Capital assets, non depreciable	15,263	81	15,344	31,258
Capital assets, depreciable, net	25,535	6,770	32,305	178,458
Total assets	262,601	9,587	272,188	359,438
Liabilities				
Outstanding checks in excess of bank balance	-	-	-	1,411
Accounts payable and accrued liabilities	15,718	46	15,764	30,678
Line of credit	-	-	-	5
Current portion of long-term debt	2,514	485	2,999	1,997
Current portion of capital leases	91	-	91	306
Due to primary government	-	-	-	1,292
Due to component units	1,579	-	1,579	217
Compensated absences	3,607	-	3,607	-
Other current liabilities	1,248	16	1,264	61
Unearned revenue	725	300	1,025	760
Unearned grant revenue	84,351	-	84,351	-
Long-term debt	32,932	1,945	34,877	38,038
Trust liabilities	-	-	-	11,294
Capital leases payable	348	-	348	-
Deferred income taxes	-	-	-	-
Other noncurrent liabilities	70	1,637	1,707	-
Minority interest	-	-	-	127
Total liabilities	143,183	4,429	147,612	86,262
Net Assets				
Invested in capital assets, net of related debt	35,969	5,519	41,488	209,405
Restricted for				
Motor vehicle tax	4,761	-	4,761	-
Permanent Funds - expendable	79	-	79	-
Permanent Funds - nonexpendable	425	-	425	-
Judgment funds - nonexpendable	2,609	-	2,609	-
Construction	1,000	-	1,000	-
Arkansas River Drybed Lands Settlement	1,403	-	1,403	-
Debt service	-	-	-	2,527
Investment in partnership/joint ventures	-	-	-	1,390
Program services	6,545	-	6,545	17,738
Unrestricted net assets/(deficit)	66,627	(361)	66,266	42,116
Total net assets	\$ 119,418	\$ 5,158	\$ 124,576	\$ 273,176

See notes to basic financial statements

CHEROKEE NATION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(Dollars in Thousands)**

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	Component Units
Primary Government:								
Governmental activities:								
Tribal Government	\$ 17,023	\$ -	\$ 905	\$ -	\$ (16,118)	\$ -	\$ (16,118)	\$ -
Health Services	79,344	-	27,722	-	(51,622)	-	(51,622)	-
Education Services	33,429	-	24,817	-	(8,612)	-	(8,612)	-
Human Services	24,824	-	19,685	-	(5,139)	-	(5,139)	-
Community Services	35,060	-	28,384	-	(6,676)	-	(6,676)	-
Other Tribal Services	10,623	2,001	2,765	-	(5,857)	-	(5,857)	-
Interest on long-term debt	1,651	-	-	-	(1,651)	-	(1,651)	-
Total governmental activities	201,954	2,001	104,278		(95,675)	-	(95,675)	-
Business-type activities:								
Tsa-La-Gi Apartments	352	475	-	-	-	123	123	-
Landfill Operations	2,252	1,937	-	-	-	(315)	(315)	-
EDTA	127	14	104	-	-	(9)	(9)	-
Child Development	1,048	766	-	-	-	(282)	(282)	-
Other Enterprises	15	-	-	-	-	(15)	(15)	-
Total business-type activities	3,794	3,192	104		-	(498)	(498)	-
Total primary government	\$ 205,748	\$ 5,193	\$ 104,382	\$ -	(95,675)	(498)	(96,173)	-
Component Units:								
Housing Authority of the Cherokee Nation ("HACN")	\$ 37,735	\$ 13,478	\$ 19,956	\$ -				(4,301)
Cherokee Nation Enterprises Inc. ("CNE")	227,378	275,590	-	-				48,212
Cherokee Nation Industries Inc. ("CNI")	80,775	83,384	-	-				2,609
Cherokee Nation Businesses, Inc. ("CNEB")	1,301	-	-	-				(1,301)
Cherokee Nation Home Health Services, Inc. ("CNHHS")	2,418	2,513	-	-				95
Total component units	\$ 349,607	\$ 374,965	\$ 19,956	\$ -				45,314
General Revenues:								
Motor fuel tax					8,094	-	8,094	-
Motor vehicle tax					6,382	-	6,382	-
Tobacco tax					3,133	-	3,133	-
Sales tax					686	-	686	-
Grants and contributions not restricted to specific programs					62,015	-	62,015	-
Unrestricted investment earnings					3,011	52	3,063	1,975
Dividends from component units					17,919	-	17,919	-
Miscellaneous revenue					898	-	898	1,355
Equity interest in joint venture					184	-	184	-
Gain/(loss) on disposals					-	-	-	671
Debt forgiveness					-	-	-	5,403
Transfers					(2,889)	1,901	(988)	-
Total general revenues, debt forgiveness, and transfers					99,433	1,953	101,386	9,404
Change in net assets								
					3,758	1,455	5,213	54,718
Net assets, beginning, as restated for component units (note 19)					115,660	3,703	119,363	218,458
Net assets, ending					\$ 119,418	\$ 5,158	\$ 124,576	\$ 273,176

See notes to basic financial statements

FUND FINANCIAL STATEMENTS

CHEROKEE NATION

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2005

(Dollars in Thousands)

	General	Self Governance DOI Roads	Self Governance DHHS	Housing & Urban Development	Other Governmental Funds	Total Governmental Funds
ASSETS						
Cash and cash equivalents	\$ 20,036	\$ 11,599	\$ 9,496	\$ 1,075	\$ 31,221	\$ 73,427
Investments	666	18,778	91	32,262	10,596	62,393
Receivables, net	2,839	743	2,087	16	5,540	11,225
Due from other funds	17,089	-	-	-	-	17,089
Due from component units	1,250	-	-	-	-	1,250
Inventories	-	-	-	-	698	698
Notes receivable	-	-	-	-	163	163
Other current assets	70	-	143	-	418	631
Restricted cash, cash equivalents and investments	26,044	-	-	-	538	26,582
Total assets	\$ 67,994	\$ 31,120	\$ 11,817	\$ 33,353	\$ 49,174	\$ 193,458

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable and accrued liabilities	\$ 7,154	\$ -	\$ 2,993	\$ 226	\$ 176	\$ 10,549
Due to other funds	1,844	306	2,834	419	9,264	14,667
Due to component units	23	-	-	1,556	-	1,579
Other current liabilities	-	-	-	-	341	341
Deferred grant revenue	-	30,231	686	31,152	22,282	84,351
Deferred revenue	6	-	-	-	719	725
Total liabilities	9,027	30,537	6,513	33,353	32,782	112,212

FUND BALANCES:

Unreserved fund balance:

Reserved by Legislative Act-(Note 12):

Motor fuel tax	21,512	-	-	-	-	21,512
Indirect cost settlement	5,017	-	-	-	-	5,017
Cash reserve	1,256	-	-	-	-	1,256
Sequoyah High School	379	-	-	-	-	379
Arkansas Riverbed settlement/litigation	1,867	-	-	-	-	1,867
Tribal judgements and trusts	-	-	-	-	10,635	10,635
Reserved by external sources:						
Grant programs	-	-	5,304	-	1,241	6,545
Motor vehicle tax	4,761	-	-	-	-	4,761
Permanent funds	-	-	-	-	504	504
Judgment funds	-	-	-	-	4,012	4,012
Unreserved (Note 12)	24,175	583	-	-	-	24,758
Total fund balances	58,967	583	5,304	-	16,392	81,246
Total liabilities and fund balances	\$ 67,994	\$ 31,120	\$ 11,817	\$ 33,353	\$ 49,174	

Amounts reported for governmental activities in the statement of net assets 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. 28,511

Assets recorded in government-wide financial statements that are not available to pay for current period expenditures, therefore, are not recorded in the funds. 9,741

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities, including bonds payable, of the internal service funds are included in the governmental activities in the Statement of Net Assets. 1,687

Liabilities that are not due and payable in the current period and therefore not reported in the funds. (1,767)

Net assets of governmental activities \$ 119,418

See notes to basic financial statements

CHEROKEE NATION

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(Dollars in Thousands)**

	<u>General</u>	<u>Self Governance DOI Roads</u>	<u>Self Governance DHHS</u>	<u>Housing & Urban Development</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues:						
Intergovernmental	\$ -	\$ 2,961	\$ 49,168	\$ 23,798	\$ 71,121	\$ 147,048
Property rentals	461	-	-	-	-	461
Motor fuel tax revenues	8,676	-	-	-	-	8,676
Tax and license revenues	11,741	-	-	-	-	11,741
Interest	1,046	561	618	455	2,558	5,238
Trust fund income	79	-	-	-	-	79
Indirect cost settlement	8,314	-	-	-	-	8,314
Dividends from component units	17,919	-	-	-	-	17,919
Other	814	-	12,090	439	13,842	27,185
Total revenues	<u>49,050</u>	<u>3,522</u>	<u>61,876</u>	<u>24,692</u>	<u>87,521</u>	<u>226,661</u>
Expenditures:						
Current operating:						
Tribal Government	10,400	-	354	1,399	3,803	15,956
Health Services	3,317	-	59,160	-	15,352	77,829
Education Services	3,825	-	-	687	28,055	32,567
Human Services	571	-	-	1,084	22,861	24,516
Community Services	4,622	3,421	2,914	20,582	15,104	46,643
Other tribal services	5,504	-	23	561	4,746	10,834
Debt services:						
Principal	432	-	-	-	1,253	1,685
Interest	32	-	-	-	1,440	1,472
Capital outlay	8,188	17	577	272	605	9,659
Total expenditures	<u>36,891</u>	<u>3,438</u>	<u>63,028</u>	<u>24,585</u>	<u>93,219</u>	<u>221,161</u>
Excess (deficiency) of revenues over expenditures	<u>12,159</u>	<u>84</u>	<u>(1,152)</u>	<u>107</u>	<u>(5,698)</u>	<u>5,500</u>
Other financing sources (uses):						
Issuance of long-term debt	-	-	-	-	13,231	13,231
Transfers in	4,977	-	-	-	923	5,900
Transfers out	(2,182)	(84)	(400)	(107)	(6,580)	(9,353)
Total other financing sources (uses)	<u>2,795</u>	<u>(84)</u>	<u>(400)</u>	<u>(107)</u>	<u>7,574</u>	<u>9,778</u>
Net change in fund balances	<u>14,954</u>	<u>-</u>	<u>(1,552)</u>	<u>-</u>	<u>1,876</u>	<u>15,278</u>
Fund balance, October 1, 2004	44,013	583	6,856	-	14,516	65,968
Fund balance, September 30, 2005	<u>\$ 58,967</u>	<u>\$ 583</u>	<u>\$ 5,304</u>	<u>\$ -</u>	<u>\$ 16,392</u>	<u>\$ 81,246</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, 2005 (Dollars in Thousands)

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

Net change in fund balances - total governmental funds	\$ 15,278
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.	8,091
Revenue derived from the increase in equity resulting from the joint venture's net income is not considered a current financial resource and is thus not recorded in the fund statements.	184
Revenues previously reported in the statement of activities that did not provide current financial resources were not previously reported as revenues in the funds. These revenues are now presented in the fund statements as they become available.	(19,257)
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 assets. Also, governmental funds report the effect of issuance costs, 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.	1,320
Some expenses are reported in the Statement of Activities when incurred and presented in the governmental funds when paid.	927
The internal service funds are used to account for those activities which provide services to other functions within the government. These costs are allocated to the governmental funds in the government-wide financial statements. This amount is the net effect of the allocations.	(2,785)
Change in net assets of governmental activities	<u>\$ 3,758</u>

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, 2005
(Dollars in Thousands)**

	Budgeted Amounts		Actual	Variance with Final Budget over/(under)
	Original	Final		
Revenues:				
Property rentals	\$ -	\$ -	\$ 461	\$ 461
Motor fuel tax	7,484	8,573	8,676	103
Taxes, licenses, and fees	8,544	8,941	11,741	2,800
Interest	45	45	1,046	1,001
Trust fund income	37	38	79	41
Indirect cost settlement	-	-	8,314	8,314
Dividends from component units	12,900	18,450	17,919	(531)
Other	840	1,043	814	(229)
Total revenues	29,850	37,090	49,050	11,960
Expenditures:				
Tribal government	11,269	12,952	10,400	(2,552)
Member services	18,407	28,333	17,839	(10,494)
Capital outlay	251	5,268	8,188	2,920
Debt service	980	980	464	(516)
Total expenditures	30,907	47,533	36,891	(10,642)
Excess (deficiency) of revenues over expenditures	(1,057)	(10,443)	12,159	22,602
Other financing sources (uses):				
Transfers in	11,516	14,883	4,977	(9,906)
Transfers out	(21,714)	(27,795)	(2,182)	25,613
Total other financing sources (uses)	(10,198)	(12,912)	2,795	15,707
Excess (deficiency) of revenues and other financing sources over expenditures	(11,255)	(23,355)	14,954	38,309
Fund balance, October 1, 2004	44,013	44,013	44,013	-
Fund balance, September 30, 2005	\$ 32,758	\$ 20,658	\$ 58,967	\$ 38,309

See notes to basic financial statements

CHEROKEE NATION

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

SEPTEMBER 30, 2005

(Dollars in Thousands)

	Business-type Activities- Enterprise Funds		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Totals	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,968	\$ 1,968	\$ 378
Investments	11	11	-
Accounts receivable, net	356	356	249
Due from other funds	14	14	1,830
Due from component units	-	-	42
Inventories	-	-	118
Notes receivable, current	150	150	-
Other current assets	2	2	172
Total current assets	<u>2,501</u>	<u>2,501</u>	<u>2,789</u>
Noncurrent assets:			
Restricted cash and cash equivalents	1,804	1,804	1,025
Long-term notes receivable	1,252	1,252	-
Capital assets, net	6,851	6,851	12,287
Total noncurrent assets	<u>9,907</u>	<u>9,907</u>	<u>13,312</u>
Total assets	<u>12,408</u>	<u>12,408</u>	<u>16,101</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	46	46	4,023
Current portion of long-term debt	485	485	459
Current portion of capital leases	-	-	91
Due to other funds	2,821	2,821	1,445
Compensated absences	-	-	3,607
Other current liabilities	16	16	907
Total current liabilities	<u>3,368</u>	<u>3,368</u>	<u>10,532</u>
Noncurrent liabilities:			
Unearned revenue	300	300	-
Long-term debt	1,945	1,945	3,534
Capital leases payable	-	-	348
Other liabilities	1,604	1,604	-
Total noncurrent liabilities	<u>3,849</u>	<u>3,849</u>	<u>3,882</u>
Total liabilities	<u>7,217</u>	<u>7,217</u>	<u>14,414</u>
NET ASSETS			
Invested in capital assets, net of related debt	5,519	5,519	7,855
Restricted	-	-	1,000
Unrestricted net assets/(deficit)	(328)	(328)	(7,168)
Total net assets	<u>\$ 5,191</u>	<u>\$ 5,191</u>	<u>\$ 1,687</u>

Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds (33)

Net assets of business-type activities \$ 5,158

See notes to basic financial statements

CHEROKEE NATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2005 (Dollars in Thousands)

	Business-type Activities- Enterprise Funds		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Totals	
Operating revenues:			
Property rentals	\$ 468	\$ 468	\$ 4
Charges for services and goods	2,434	2,434	53,341
Other	290	290	322
Total operating revenues	3,192	3,192	53,667
Operating expenses:			
Cost of sales			4
Salaries and wages	1,308	1,308	44,728
Other services and charges	1,368	1,368	9,758
Materials and supplies	70	70	864
Depreciation and amortization	926	926	1,249
Total operating expenses	3,672	3,672	56,603
Operating income (loss)	(480)	(480)	(2,936)
Nonoperating revenues (expenses):			
Interest income	156	156	10
Interest expense	(92)	(92)	(179)
Gain/(loss) on sale of capital assets			(274)
Net nonoperating revenues (expenses)	64	64	(443)
Income (loss) before transfers	(416)	(416)	(3,379)
Transfers in	1,901	1,901	1,096
Transfers out	-	-	(532)
Change in net assets	1,485	1,485	(2,815)
Total net assets - beginning	3,706		4,502
Total net assets - ending	\$ 5,191		\$ 1,687
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds		(30)	
Change in net assets of business-type activities		\$ 1,455	

See notes to basic financial statements

CHEROKEE NATION

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2005 (Dollars in Thousands)

	Business-type Activities- Enterprise Funds		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Total	
Cash flows from operating activities:			
Receipts from customers	\$ 3,202	\$ 3,202	\$ 53,345
Payments to suppliers	(1,429)	(1,429)	(13,093)
Payments to employees	(1,308)	(1,308)	(44,728)
Internal activity, net - payments (to)/from other funds	1,457	1,457	43
Other receipts	351	351	850
Net cash provided/(used) by operating activities	<u>2,273</u>	<u>2,273</u>	<u>(3,583)</u>
Cash flows from noncapital financing activities			
Operating subsidies and transfers (to)/from other funds	814	814	
Equity transfer	629	629	
Net cash provided by noncapital financing activities	<u>1,443</u>	<u>1,443</u>	<u>564</u>
Cash flows from capital and related financing activities			
Purchases of capital assets	(2,172)	(2,172)	(438)
Proceeds from capital debt	588	588	-
Principal paid on capital debt	(363)	(363)	(527)
Interest paid on capital debt	(92)	(92)	(179)
Proceeds from sales of capital assets	-	-	13
Net cash (used) by capital and related financing activities	<u>(2,039)</u>	<u>(2,039)</u>	<u>(1,131)</u>
Cash flows from investing activities			
Interest and dividends	156	156	10
Net cash provided by investing activities	<u>156</u>	<u>156</u>	<u>10</u>
Net increase (decrease) in cash and cash equivalents	1,833	1,833	(4,140)
Cash and cash equivalents, October 1, 2004	<u>1,939</u>	<u>1,939</u>	<u>5,543</u>
Cash and cash equivalents, September 30, 2005	<u>\$ 3,772</u>	<u>\$ 3,772</u>	<u>\$ 1,403</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (480)	\$ (480)	\$ (2,936)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	926	926	1,249
Change in assets and liabilities:			
Receivables, net	(88)	(88)	1,276
Inventories	-	-	(14)
Other current assets	-	-	(84)
Accounts and other payables	1,915	1,915	(3,074)
Net cash provided by (used for) operating activities	<u>\$ 2,273</u>	<u>\$ 2,273</u>	<u>\$ (3,583)</u>

See notes to basic financial statements

CHEROKEE NATION

COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS
 SEPTEMBER 30, 2005 (JUNE 30, 2005 for CNI)
 (Dollars in Thousands)

	Housing Authority of the Cherokee Nation (HACN)	Cherokee Nation Enterprises Inc. (CNE)	Cherokee Nation Industries Inc. (CNI)	Cherokee Nation Businesses Inc. (CNB)	Cherokee Nation HomeHealth Services, Inc. (CNHHS)	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 8,954	\$ 42,013	\$ 1,093	\$ 133	\$ 217	\$ 52,410
Restricted cash	-	1,562	-	-	-	1,562
Investments	11,026	-	-	-	-	11,026
Receivables, net	311	5,520	12,383	-	236	18,450
Interest receivable	329	-	-	-	-	329
Mortgages receivable-Title VI	515	-	-	-	-	515
Due from primary government	1,579	-	-	-	-	1,579
Inventories	2,211	1,674	9,929	-	-	13,814
Prepaid Expenses	94	-	84	-	-	184
Notes receivable	-	-	-	2,909	-	2,909
Deferred income taxes	-	-	480	-	-	480
Investment in partnership	-	-	-	9	-	9
Other current assets	301	1,499	470	-	-	2,270
Total current assets	25,320	52,268	24,439	3,051	459	105,537
Restricted investments	11,609	-	-	-	-	11,609
Notes receivable	93	2,769	-	-	-	2,862
Mortgages receivable-Title VI and partnerships	26,626	-	-	-	-	26,626
Other assets	802	-	896	-	-	1,698
Investment in partnerships/joint ventures	1,390	-	-	-	-	1,390
Capital assets, net	88,165	120,544	853	-	154	209,716
Total assets	154,005	175,581	26,188	3,051	613	359,438
LIABILITIES						
Current liabilities:						
Outstanding checks in excess of bank balance	-	-	1,411	-	-	1,411
Accounts payable and accrued liabilities	1,530	22,822	6,124	30	172	30,678
Line of credit	-	-	-	-	5	-
Current portion of long-term debt	1,854	-	143	-	-	1,997
Current portion of capital leases	-	306	-	-	-	306
Due to primary government	-	1,292	-	-	-	1,292
Due to Cherokee Nation Enterprises	-	-	-	217	-	217
Deferred revenue	398	362	-	-	-	760
Other current liabilities	61	-	-	-	-	61
Total current liabilities	3,843	24,782	7,678	247	177	36,727
Long-term debt	29,047	-	5,146	3,845	-	38,038
Trust Liabilities	11,294	-	-	-	-	11,294
Deferred income taxes	-	-	76	-	-	76
Minority Interest	-	-	127	-	-	127
Total liabilities	44,184	24,782	13,027	4,092	177	86,262
NET ASSETS						
Invested in capital assets, net of related debt	88,166	120,238	852	-	149	209,405
Restricted for:						
Debt service	2,527	-	-	-	-	2,527
Investment in partnership/joint ventures	1,390	-	-	-	-	1,390
Program services	17,738	-	-	-	-	17,738
Unrestricted net assets/(deficit)	-	30,561	12,309	(1,041)	287	42,116
Total net assets (deficit)	\$ 109,821	\$ 150,799	\$ 13,161	\$ (1,041)	\$ 436	\$ 273,176

See notes to basic financial statements

CHEROKEE NATION

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (DEFICIT) -
 COMPONENT UNITS
 FOR THE YEAR ENDED SEPTEMBER 30, 2005 (Year ended June 30, 2005 for CNI)
 (Dollars in Thousands)

	Housing Authority of the Cherokee Nation (HACN)	Cherokee Nation Enterprises Inc. (CNE)	Cherokee Nation Industries Inc. (CNI)	Cherokee Nation Businesses Inc. (CNB)	Cherokee Nation HomeHealth Services, Inc. (CNHHS)	Total
Operating revenues:						
Charges for services and goods	\$ 13,478	\$ 275,590	\$ 83,384	\$ -	\$ 2,513	\$ 374,965
Other	275	590	-	-	1	866
Total operating revenues	13,753	276,180	83,384	-	2,514	375,831
Operating expenses:						
Cost of sales/operations	19,604	69,812	45,362	-	-	134,778
Equity interests in Investments	-	-	-	915	-	915
Salaries and wages	5,947	82,223	29,690	196	1,801	119,857
Housing assistance	4,693	-	-	-	-	4,693
Other services and charges	904	40,050	4,297	-	603	45,854
Depreciation and amortization	5,213	14,777	295	-	11	20,296
Total operating expenses	36,361	206,862	79,644	1,111	2,415	326,393
Operating income (loss)	(22,608)	69,318	3,740	(1,111)	99	49,438
Nonoperating revenues (expenses)						
Grant revenue	19,956	-	-	-	-	19,956
Interest/investment income	1,351	429	4	189	2	1,975
Interest expense	(1,374)	(326)	(456)	(190)	(3)	(2,349)
Contributions from Cherokee Nation	-	-	-	200	-	200
Allowance for uncollectible accounts	-	(1,100)	-	-	-	(1,100)
Debt forgiveness	-	-	5,403	-	-	5,403
Gain/(loss) on disposal of assets	679	(8)	-	-	-	671
Other, net	-	-	289	-	-	289
Net nonoperating revenues (expenses)	20,612	(1,005)	5,240	199	(1)	25,045
Income (loss) before income taxes	(1,996)	68,313	8,980	(912)	98	74,483
Income tax benefit (expense)	-	-	(727)	-	-	(727)
Loss attributable to minority interest	-	-	52	-	-	52
Net Income (loss)	(1,996)	68,313	8,305	(912)	98	73,808
Dividends to primary government	-	(19,090)	-	-	-	(19,090)
Change in net assets	(1,996)	49,223	8,305	(912)	98	54,718
Net assets, beginning of year, as restated for HACN (Note 19)	111,817	101,576	4,856	(129)	338	218,458
Net assets (deficit), end of year	\$ 109,821	\$ 150,799	\$ 13,161	\$ (1,041)	\$ 436	\$ 273,176

See notes to basic financial statements

NOTES TO THE BASIC FINANCIAL STATEMENTS

CHEROKEE NATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2005.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Cherokee Nation (the "Nation") have been prepared in conformity with accounting principles generally accepted in the United States of America ("GAAP") 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. With respect to proprietary activities, including component units, the Nation has adopted GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Government Entities That Use Proprietary Fund Accounting*. The Nation has elected to apply all applicable GASB pronouncements, as well as Financial Accounting Standards Board ("FASB") pronouncements and Accounting Principles Board ("APB") Opinions issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict, GASB pronouncements.

Reporting Entity—The Nation is a tribal organization 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 Cherokee Nation received, disbursed, or in the custody of the Nation or the Bureau of Indian Affairs ("BIA") 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," and based on that criterion, has included the following entities as component units within the Nation's basic financial statements:

Discretely Presented Component Units—The component units' columns 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. 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.

Housing Authority of the Cherokee Nation of Oklahoma—The Housing Authority of the Cherokee Nation of Oklahoma ("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. Effective October 1, 1997, the Native American Housing Assistance and Self-Determination Act ("NAHASDA") was implemented. The purpose of NAHASDA is to provide Federal assistance for Indian tribes in a manner that recognizes the right of Indian self-determination and tribal self governance. The Commissioners of the Housing Authority are nominated by the Principal Chief and confirmed by the Council of the Cherokee Nation. In September 2000, the Tribal Council of the Nation approved a legislative act that resulted in the Nation becoming the direct recipient of Department of Housing and Urban Development ("HUD") funds formerly received directly by the HACN. Concurrent with this legislative act, the Nation and the HACN entered into a memorandum of understanding ("MOU") whereby the Nation agreed to pass through to the HACN a significant portion of the NAHASDA grant funds received by the Nation

from HUD. Under the MOU, the Nation is responsible for oversight and compliance of the funds passed through to the HACN. As a result, HACN is considered to be a component unit of the Nation.

Cherokee Nation Enterprises, Inc.—Cherokee Nation Enterprises, Inc. (“CNE”) is a tribal corporation of the Nation, which operates gaming facilities, a hotel, restaurants, smokeshops, convenience stores, golf courses, gift shops, and a horse racing facility. The Nation established CNE, and while not directly managing the daily operations, is able to exert significant influence over CNE’s activities as a result of its relationship with CNE. CNE is managed through a board of directors nominated by the Principal Chief of the Nation and approved by the Tribal Council.

CNE’s gaming operations are regulated by the Cherokee Nation Gaming Commission, an arm of the Nation that has statutory oversight over gaming activity conducted by CNE. During 2005, CNE paid \$1,140,000 to the Nation to cover costs associated with the Cherokee Nation Gaming Commission’s oversight responsibilities. CNE collects a tribal tax on food and beverage, tobacco, merchandise, and other retail sales which is remitted to the Cherokee Nation Tax Commission. CNE remitted approximately \$715,000 to the Cherokee Nation Tax Commission for fiscal year 2005.

In November, 2004, Oklahoma voters approved State Question 712 allowing for expanded gaming offerings at CNE, upon negotiation and approval of a gaming compact between the Nation and the State. The gaming compact was signed November 16, 2004. CNE offers an expanded selection of electronic games, as well as non-house banked card games at its facilities on tribal lands as a result of the compact. The gaming compact requires CNE to pay a fee on selected electronic games and non-house banked card games to the state. CNE began card operations in January 2005. The payments to the State for FY2005 for such fees were \$2,004,746.

Will Rogers Downs, LLC (“WRD”) is a limited liability company organized under the laws of the Cherokee Nation created to own and operate a horse racing facility in Claremore, Oklahoma. CNE is the sole member owning 100% of the units of WRD. WRD was created on April 23, 2004. The president of CNE is the designated manager of WRD. Based on the foregoing criteria and in compliance with the provisions of GASB No. 14, *The Financial Reporting Entity*, WRD is included as a blended component unit in CNE’s financial statements. WRD is subject to oversight by the Oklahoma Horse Racing Commission (“OHRC”). As a result of the gaming compact with the state of Oklahoma, WRD has installed electronic gaming devices and operates as a Racino. WRD’s operations consist of electronic gaming and live simulcasts; and are approved by the OHRC for live racing. WRD opened for business on December 9, 2005, and prior to that time had limited operating activities.

Rolling Hills Catering, LLC (“RHC”) is a limited liability company organized under the laws of the Cherokee Nation created to serve as a separate legal entity from which to provide food and beverage services to Cherokee Casino Hotel and Resort. CNE is the sole member owning 100% of the units of RHC. RHC was created on April 28, 2004. The president of CNE is the designated manager of RHC. Based on the foregoing criteria and in compliance with the provisions of GASB No. 14, *The Financial Reporting Entity*, RHC is included as a blended component unit in CNE’s financial statements. RHC had no operating activities in 2005.

Cherokee Nation Industries, Inc., CND, LLC, and Cherokee Medical Services, L.L.C. (collectively “CNI”)—The Nation established CNI, and while not directly managing the daily operations, is able to exert significant influence over CNI’s activities as a result of its relationship to CNI and appointment of a majority of CNI’s board members. Although legally separate entities, this group of companies operates under the same management team and board of directors and issues combined financial statements. CNI engages primarily in the production, assembly, and repair of

electronic component parts and wiring systems, and the provisions of certain contract medical services for the U.S. Government. The separately issued combined financial statements of CNI are prepared in accordance with accounting principles promulgated by the Financial Accounting Standards Board. The financial statements of CNI included in this report have been reclassified, as necessary, to conform to GASB principles. All information included in the Nation's financial statements for CNI is for the fiscal period ended June 30, 2005.

Cherokee Nation Business, Inc.—Cherokee Nation Business, Inc. (“CNB”), a tribal corporation, was created June 16, 2004, to provide shared services and strategic coordination to the Nation's business entities and 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 owns 100% of Cherokee Technologies, LLC (“CT”), which is a limited liability company organized June 16, 2004 under the laws of the Nation and accounts for CT as a blended component unit. Cherokee Connex, LLC (“Connex”) was organized June 18, 2004 for the purpose of providing wireless internet services in the Tulsa market and surrounding rural areas. Connex is 51% owned by CT and 49% by other investors and is accounted for using the equity method. Connex is a development stage enterprise.

Cherokee CRC, LLC (“CCRC”) is a limited liability company organized under the laws of the state of Oklahoma. CCRC is an environmental services company, formed April 27, 2005. CNB owns 51% of CCRC and accounts for CCRC using the equity method. CCRC received 8(a) certification from the U.S. Small Business Administration on July 28, 2005.

The Cherokee Nation passed the “Jobs Growth Act” in November 2005, which authorizes the Principal Chief to execute the necessary documents to transfer ownership of substantially all wholly owned Cherokee companies such as, Cherokee Nation Enterprises and Cherokee Nation Industries to CNB. More information on the Jobs Growth Act is covered in Note 18.

Cherokee Nation Home Health Services, Inc.—Cherokee Nation Home Health Services, Inc. (“CNHHS”), a tribal corporation, was organized for the purpose of engaging in the home healthcare services. The Nation created CNHHS and is able to exert significant influence over CNHHS' activities as a result of its relationship with CNHHS and board member appointments.

The financial statements for the discretely presented proprietary component units are presented as part of the accompanying basic financial statements. All discretely presented component units are presented as major funds. Selected disclosures for the discretely presented component units have been included in these notes to the basic financial statements. Separately issued audited financial statements with additional disclosures may be obtained for each of the above component units from the Cherokee Nation Controller's office.

Blended Component Units – A component unit whose operations are intertwined with those of the primary government 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 units are as follows:

Cherokee Nation Economic Development Trust Authority – The Economic Development Trust Authority (“EDTA”), a Community Development Financial institution, is 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 was previously presented as a special revenue fund, however beginning in FY2005 it is presented as a proprietary fund in the accompanying financial statements.

Cherokee Nation Comprehensive Care Agency – The Cherokee Nation Comprehensive Care Agency, (“Agency”) was established on January 29, 2004. The agency was created to facilitate various Nation health care initiatives including the facilitation of joint ventures and other business related health activities. The Agency and the Tahlequah City Hospital entered into a joint venture on September 28, 2004, to create Cherokee Health Partners, LLC which is 51% owned by the Nation. Cherokee Health Partners, LLC is an imaging center located in the Tahlequah City Hospital. The initial services to be provided are nuclear scans of the bones, heart, and lungs. The Nation has made an initial investment in Cherokee Health Partners, LLC in the amount of \$148,000. For FY2005, the Nation recorded an increase in equity of \$184,000 resulting from the joint venture’s net income for the year. The joint venture is recorded as an asset at the government-wide level; however it is not recorded at the fund level because it does not represent a currently available financial resource.

Excluded Organizations—During 2005, the following organizations did not meet the criteria for inclusion in the reporting entity, and accordingly their financial operations are excluded from this report.

Cherokee Nation Education Foundation

Cherokee National Historical Society

Adair County Indian Credit Association

Section 202 Housing Projects (except Tsa-La-Gi Apartments)

Environmental Advisory Group

In fiscal year 2006, the Nation and CNE and the Cherokee National Historical Society entered into an operations management Memorandum of Agreement. This event is discussed more fully in Note 18.

Cherokee Nation law requires that all corporations, majority owned by the Nation, and incorporated under Cherokee Nation law are subject to a pay a dividend to the Nation of 25% of net income. To date, CNE is the only Cherokee Nation Corporation to pay such dividend as it is the only discretely presented component unit incorporated under Cherokee Nation law that made a profit in 2005. Effective January 2006, the dividend was increased to 30% of net income. The dividend requirement has not been applied to the Nation’s blended component units that were incorporated under Cherokee Nation law.

BASIS OF PRESENTATION

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. These statements include the Statement of Net Assets and the Statement of Activities as directed by GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (“GASB 34”). Under GASB 34 reporting, fiduciary funds and fiduciary-type component units are omitted from the government-wide financial statements.

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 equity, revenues, expenditures, 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. Funds not meeting the criteria of 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 unrestricted 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**—Established to account for funds received from the Department of Interior (“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.
 - **Self Governance-DHHS**—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 Indian Health Services relating to health and human services. These expenditures are generally presented as health and community services expenditures in the accompanying financial statements.
 - **Housing and Urban Development**—Established to account for grant

funds received from the Department of Housing and Urban Development to improve living conditions and renovate homes of Indian residents. During fiscal 2005, the majority of the program expenditures were in the form of subrecipient payments to the Housing Authority, a discretely presented proprietary component unit of the Nation. These expenditures are generally presented as community service expenditures in the accompanying financial statements.

- **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 restricted and reserved.

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 net assets of the governmental fund financial statements and the net assets 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 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 proprietary funds maintained by the Nation are internal service funds, enterprise funds, and discretely presented component units, which represent the activities of the various entities established by the Nation for income and job producing purposes.

- **Internal Service Funds**—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, force accounts, fringe pool, indirect cost pool, and tribal operations' construction management in these funds. Substantially all internal service funds' net assets and activities are combined with the governmental activities in the government-wide financial statements. Note disclosures for governmental activities also include related amounts for the internal service funds.
- **Enterprise Funds**—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 Tsa-La-Gi Apartments, Landfill Operations, Childhood Development Centers, Economic Development Trust Authority ("EDTA") and Other enterprise activities in these funds. None of the Nation's enterprise funds are reported as major funds. EDTA was previously reported as a Special Revenue fund and changed to an Enterprise fund in the current year to more accurately reflect the activities in the EDTA.
- **Component Units**—See pages 34 - 36 for descriptions of discretely presented component units.

Enterprise financial statements include a statement of net assets, a statement of revenues, expenses and changes in fund net assets, and a statement of cash flows. A column representing internal service funds is also presented in these statements, with the internal service funds' net assets and activities combined with the governmental activities in the government-wide financial statements.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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 Assets 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, financial 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, financial 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, 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 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.

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. Effective with the 2005 financial statements, the Nation has implemented the disclosure requirements of GASB Statement No. 40, *Deposits and Investment Risk Disclosures*.

Restricted Cash and Cash Equivalents—Amounts represent certain bank account balances restricted for specific purposes as described in Note 4.

Investments—The Nation accounts for its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. GASB 31 establishes accounting and financial reporting standards for most investments held by governmental entities. The Nation reports investments at fair value. Fair value is determined using quoted market prices.

Inventories

- The Nation, through its participation in the Clinics Program, maintains an inventory of pharmaceutical drugs received from the United States Department of Health and Human Services. Title to these inventories does not pass to the Nation, which acts only as a distribution agent for the federal government. The value of drugs on hand related to this program has not been included in the Nation's financial statements.
- The Nation maintains an inventory of the food received for disbursement from Cherokee Nation's Food Distribution program. Food acquisitions are initially recorded as inventory and as deferred revenue and are charged to expenditures as used, using the FIFO method. Food inventories are valued at the cost assigned to such food items by the granting agency.
- CNE's inventories consist primarily of smokeshop, convenience store, gift shop, and gaming inventories and are valued at the lower of cost FIFO or market.
- CNI's inventories are valued at the lower of cost FIFO or market and consist principally of raw materials and purchased finished goods. Reserves are provided for slow-moving or obsolete inventories.
- HACN, as a result of the operation of the Title VI Loan program primarily, 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. These homes are presented as inventory by HACN.

Capital Assets—The Nation's accounting policies regarding capital assets such as land, 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

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. Activities such as the Nations gaming activities can only be conducted on land held in trust status. When land goes into trust status, the title to the property is transferred to the Federal Government. Under generally accepted accounting principles this land must be removed from the books of the Nation or its component units since the Nation no longer has title to the land. During the year ended September 30, 2005 land with a cost basis of \$282,000 was transferred into trust status and was written off by the Nation as a loss on disposition of assets. At September 30, 2005, 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 property will be written off by the Nation when, and if, the property is accepted into trust status.

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.

Deferred Grant 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 deferred revenue until the funds are expended in accordance with the grant terms.

Landfill Site Development, Closure, and Postclosure Care Costs—The Nation capitalizes expenditures incurred for development of landfill cells for future use and amortizes such costs over the estimated life of the developed cell beginning upon its activation. The Nation, based on the cumulative amount of used capacity, accrues the currently estimated liability for closure and postclosure care costs. Such estimated costs include expected equipment and facility costs, costs of the final cover and postclosure care.

Taxes

- The Nation, except for CNI, is exempt from federal and state income taxes; consequently, no provision for income taxes is included in the accompanying financial statements for any funds, excluding CNI.
- Tsa-La-Gi Apartments are registered as tribal lands held in trust. As such, it is exempt from the payment of property taxes.
- CNE pays a gaming tax based on the previous year's 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") and have been reflected within operating expenses in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. Total payments for fiscal year 2005 were \$87,000.

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 full-time employees. Permanent part-time employees earn vacation leave according to the pro-rata full-time hours worked. 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.

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 2005, the Cherokee Nation bought back \$730,000 of accrued annual leave.

Equity Classifications

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

1. *Invested in capital assets, net of related debt*—Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to those assets.
2. *Restricted net assets*—Consists of net assets with constraints placed on the use either by external groups, such as grantors or laws and regulations of other governments, or law through Tribal constitutional provisions or enabling legislation.
3. *Unrestricted net assets*—All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

Fund Financial Statements—Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved. Proprietary fund equity is classified the same as in the government-wide statements.

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 defines the availability period for revenue recognition as ninety (90) days. The Nation’s major revenue sources that meet this availability criterion are Motor Fuel Tax (MFT), Motor Vehicle Tax revenues and dividends declared by Component Units.

Program Revenues—There are two classifications of programmatic revenues for the Nation, grant revenues and program revenue. Grant revenues are revenues from federal, state, and private grants. These revenues are recognized as the related expenditures are made and are reported as intergovernmental revenues. The primary source of program revenue is earned income in connection with the operation of the Nation’s 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 during the year ended September 30, 2005 was approximately \$12.1 million.

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 transactions and other events. Non-operating revenues are funds primarily provided by investing activities, such as interest income and Federal grants received by HACN. 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 includes 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. During the year ended September 30, 2005, the Nation's interest earnings under the DOI Self Governance Compact, DOI - Roads, and DHHS Self Governance Compacts were approximately \$73,000, \$561,000 and \$618,000, respectively.

Interest Income-Grants—The Nation receives certain amounts of advance funding in connection with three large grants: (1) NAHASDA, funded by HUD, (2) the Sequoyah High School Grant, which is funded by the DOI, and (3) 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 Secretary-Treasurer and with advisement from the Controller, shall formulate an annual appropriations bill. The bill shall contain the legal budgeted annual revenue and expenditures for the general fund, and enterprise funds, 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. The Executive and Finance Committee of the Council, upon direction of the Secretary-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 full 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 and liabilities 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.

Recently Issued Accounting Standards- The following accounting standards have been recently issued and will be adopted as applicable by the Nation in future years:

Statement No. 42, *Accounting and Financial Reporting of Capital Assets and for Insurance Recoveries* - This statement requires governments to report the effects of capital assets impairment in their financial statements when they occur rather than as a part of ongoing depreciation expense. The guidance also enhances comparability of financial statements by requiring all governments to account for insurance recoveries in the same manner. This statement will become effective for the Nation in the fiscal year ending September 30, 2006.

Statement No. 44, *Economic Condition Reporting: The Statistical Section - an amendment of NCGA Statement 1* - This Statement establishes and modifies requirements related to the supplementary information presented in a statistical section. This statement will become effective for the Nation in the fiscal year ending September 30, 2006.

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* - This Statement establishes standards of accounting and financial reporting for post employment health care and other benefits if provided separately from a pension plan. This statement will become effective for the Nation in the fiscal year ending September 30, 2008.

Statement No. 46, *Net Assets Restricted by Enabling Legislation* - This Statement defines a legally enforceable enabling legislation restriction as one that a party external to a government can compel a government to honor. It also specifies the accounting and financial reporting requirements of new enabling legislation or the legal enforceability of reevaluated legislation. GASB Statement No. 46 will provide the Nation with clarification of enabling legislation and provide guidance on how to respond to changes in the circumstances surrounding an enabling legislation restriction. This statement will become effective for the Nation in the fiscal year ending September 30, 2006.

Statement No. 47, *Accounting for Termination Benefits* - This statement establishes the accounting standards for termination benefits. It requires employers to disclose a description of the termination benefit arrangement, the cost of the termination benefits, and significant methods and assumptions used to determine termination benefit liabilities. This statement will become effective for the Nation in the fiscal year ending September 30, 2006.

Management has not yet determined the impact of these statements on the Nation's financial statements.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation of total fund balance of the governmental funds to the total net assets of the governmental activities in the statement of net assets. 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 \$28,511,000 difference are as follows (in thousands):

Capital assets, net	\$ 40,798
Less: Internal service fund capital assets	<u>(12,287)</u>
Capital assets used in governmental activities	<u>\$ 28,511</u>

Another element of that reconciliation explains that “assets recorded in the government-wide financial statements are not available to pay for current period expenditures, therefore, are not recorded in the funds.” The details of this \$9,741,000 difference are as follows (in thousands):

IHS Indirect Cost Settlement (Note 5)	\$ 3,437
Arkansas River Drybed Lands Settlement receivable (Note 5)	5,972
Investment in Cherokee Health Partners, LLC	<u>332</u>
Net Adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 9,741</u>

The final element of that reconciliation, excluding the net assets of the internal service funds of \$1,687,000, explains that “liabilities are not due and payable in the current period and, therefore, not reported in the funds.” The details of this \$1,767,000 difference are as follows (in thousands):

IHS IDC Settlement legal fee liability (Note 5)	\$ 1,146
Long-term debt - governmental funds	497
Liability payment for component unit	154
Allocation of internal service fund to enterprise fund	<u>(30)</u>
Net Adjustment to decrease fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 1,767</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 assets 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 \$8,091,000 difference are as follows (in thousands):

Capital expenditures in governmental funds capitalized on government-wide financial statements	\$ 9,659
Depreciation expense	<u>(1,568)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 8,091</u>

The next element of that reconciliation clarifies that “revenue derived from the result of the joint venture’s net income is not considered a current financial resource and is thus not recorded in the fund statements.” The \$184,000 is the Nation’s share of the net income of the joint venture for FY2005.

Another element of that reconciliation states that “revenues previously reported in the statement of activities that did not provide current financial resources were not reported as revenues in the funds. These revenues are now presented in the fund statements as they become available.” The details of this \$19,257,000 difference are as follows (in thousands):

Indian Health Services Indirect Cost Settlement, net (Note 5)	\$ (8,314)
Amounts accrued in government-wide in 2004, recorded at fund level in 2005	(2,614)
Arkansas River Drybed Lands	<u>(8,329)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (19,257)</u>

Another element of that reconciliation states that “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.” The details of this \$1,320,000 difference are as follows (in thousands):

Debt principal payments	\$ 1,685
Amount provided from HACN to the Nation for Title VI payment	(100)
Recording of Long-term debt for EDTA due to change in fund type	988
Amount received from HACN in FY 2004 for Title VI payment, payment made by Nation in FY 2005	<u>(1,253)</u>
Net adjustment to decrease changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ 1,320</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 \$927,000 difference are as follows (in thousands):

Arkansas River Drybed Lands litigation legal fee	\$ 774
Indian Health Services Indirect Cost Settlement, net (Note 5)	1,003
Disallowed cost settlement	100
Other	<u>(950)</u>
Net adjustment to increase net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 927</u>

Another element of that reconciliation states that “the internal service funds are used to account for those activities which provide services to other functions within the government. These costs are allocated to the governmental funds in the government-wide financial statements. This amount is the net effect of the allocations.” The details of this \$2,785,000 difference are as follows (in thousands):

Internal Service Fund activities:	
Changes in net assets	<u>\$ (2,785)</u>
Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (2,785)</u>

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Internal Service Funds' Force Accounts, Fringe Pool, and Construction had net deficits of \$31,000, \$6,393,000, and \$445,000 respectively, at September 30, 2005. If the above deficits cannot be recovered in future years through operating revenues and fringe charges to other funds of the Nation, the General Fund may be required to cover the deficits.

4. 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 to it. 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. Summarized, the uninsured and uncollateralized deposit amounts are as follows (in thousands):

Primary Government - Uninsured and uncollateralized	\$	147
Component Units - Uninsured and uncollateralized		<u>1,195</u>
Total Uninsured and uncollateralized	\$	<u>1,342</u>

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 five years. Any investment with a maturity date of over five years requires CN Tribal Council approval.

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 (NRSROs). The Nation's investments in U.S. agencies and Commercial paper were rated AAA by Standard & Poor's and Fitch Ratings and Aaa by Moody's Investors Service. The Nation's and CNE's mutual bond fund investments were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Investments, categorized as to interest and credit risk, at September 30, 2005 were as follows (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:						
U.S. Treasuries	\$ 5,437	\$ 1,690	\$ 3,747	\$ -	\$ -	N/A
Government sponsored entities	27,529	10,629	15,271	1,219	410	Aaa/AAA
Commercial paper	1,419	1,419	-	-	-	Aaa/AAA
Money Market Mutual funds	5,721	5,721	-	-	-	(1)
Total Primary Government	\$ 40,106	\$ 19,459	\$ 19,018	\$ 1,219	\$ 410	
Component Units:						
Money market funds	\$ 29,290	\$ 29,290	\$ -	\$ -	\$ -	(1)
Government Obligations Fund	8,797	8,797	-	-	-	AAA/Aaa
Government sponsored entities	6,347	1,484	4,863	-	-	AAA/Aaa
Total Component Units	\$ 44,434	\$ 39,571	\$ 4,863	\$ -	\$ -	

(1) While these Money Market Mutual funds and Money market 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 above to the investments as presented in the statement of net assets follows (in thousands):

Investments as presented above:	\$ 40,106
Plus Certificates of Deposit reported as investments	44,724
Less investments reported as Restricted Investments	(16,705)
Less Money market funds recorded as Cash & Cash Equivalents	(5,721)
Total investments	\$ 62,404

Restricted Cash, Cash Equivalents and Investments—Restricted cash, cash equivalents and investments and reserved cash at September 30, 2005 included the following:

- \$4,167,000 restricted for construction at Sequoyah High School.
- \$5,076,000 relating to Indirect cost settlement restricted for expanding health care facilities and cash reserves.
- \$3,358,000 relating to the Motor Fuel Tax Scholarship Reserve.
- \$25,000 reserved for natural resources replacement.
- Unspent proceeds of \$1,000,000 in the Internal Service Funds obtained from bank financing.

- \$113,000 representing tenant security deposits held in trust, replacement reserves and mortgage escrow deposits for Tsa-La-Gi.
- \$1,691,000 relating to the capital replacement and closure and postclosure care costs of the Landfill Operations fund.
- \$538,000 relating to scholarship funds.
- \$13,551,000 reflecting the balance in Motor Fuel Tax Education Trust.
- \$2,527,000 held in escrow relating to the Title VI loan with a bank (see Note 9).
- \$9,082,000 relating to HACN's lease-to-own homeownership program
- \$1,562,000 relating to CNE's player pool.

5. RECEIVABLES

Receivables at September 30, 2005 consisted of the following (in thousands):

	Primary Government			Total
	Entitlements/ Grants & Contracts Receivable	Accounts Receivable	Interest Receivable	
Governmental Fund Receivables:				
General				
Motor fuel taxes	\$ -	\$ 1,998	\$ 108	\$ 2,106
Other taxes	-	40	-	40
Other	12	681	-	693
Special Revenue Funds:	<u>3,116</u>	<u>5,103</u>	<u>167</u>	<u>8,386</u>
Governmental fund receivables	3,128	7,822	275	11,225
Receivables recorded in the Government-wide financial statements that are not recorded in the funds:				
Arkansas River Drybed Lands Settlement	5,972	-	-	5,972
IHS Indirect Cost Settlement	-	3,437	-	3,437
Other - Internal Service Funds	-	249	-	249
Receivables of Governmental Activities	<u>\$ 9,100</u>	<u>\$ 11,508</u>	<u>\$ 275</u>	<u>\$ 20,883</u>
Business Type Activities:				
Landfill operations	\$ -	\$ 365	\$ -	\$ 365
Other	-	1	-	1
	-	366	-	366
Less: Allowance for uncollectible accounts		(10)	-	(10)
	<u>\$ -</u>	<u>\$ 356</u>	<u>\$ -</u>	<u>\$ 356</u>

	Component Units				
	HACN	CNE	CNI	CNHHS	Total
Receivables:					
Accounts	391	5,520	12,567	257	18,735
Interest	329	-	-	-	329
Due from primary government	1,579	-	-	-	1,579
	2,299	5,520	12,567	257	20,643
Less: Allowance for uncollectibles	(80)		(184)	(21)	(285)
Receivables, net	\$ 2,219	\$ 5,520	\$ 12,383	\$ 236	\$ 20,358

Arkansas River Drybed Lands Settlement— The Arkansas River Dry Bed Settlement receivable relates to an agreement reached with the Federal government in 2003, whereby the Nation was awarded a settlement of \$20,000,000 to be paid at the rate of \$5,000,000 per year commencing in 2004. The \$20,000,000 settlement was recorded in the government-wide financial statements in 2003. In addition to the scheduled \$4,218,000 payment received in 2005, the Nation also received an additional \$4,111,000 payment in 2006 that was accrued in the Nation's other governmental funds at September 30, 2005. The remaining receivable at September 30, 2005 of \$5,972,000 that is not reflected in the fund level financial statements is reflected in the Nation's Government-wide statement of net assets. The Nation has agreed to pay \$1,082,000 in legal fees in connection with this settlement. One legal firm is seeking additional legal fees of approximately \$1,450,000, however, management of the Nation does not believe it will be required to pay these additional fees, and therefore no related liability has been recorded by the Nation. At September 30, 2005, the total legal fee liability of \$1,082,000 is reflected as a reduction of the related receivable in the fund financial statements. As part of the settlement agreement, the Nation could also be required to pay up to \$2,000,000 of any future settlements made by the federal government with other Native American Indian Tribes. This portion (10%) of the payments received to date of \$1,403,000 is being held in a separate account by the federal government and is not available to the Nation until this contingency is resolved. As a result this portion of the proceeds is reflected as restricted net assets in the accompanying financial statements. Pursuant to an act passed by the Cherokee Nation Tribal Council in 2004 the settlement proceeds, after payment of legal fees and other claims, if any, are reserved for the purchase of land in designated areas.

IHS Indirect Cost Settlement— The IHS Indirect Cost Settlement receivable relates to the resolution of claims submitted in prior years for the nonpayment of contract support costs (including indirect costs) by the Indian Health Services (IHS) during fiscal years 1994 through 1997. These claims were the subject of various administrative and legal proceedings over the last several years. On March 1, 2005 the matter was resolved by a decision of the Supreme Court of the United States which ruled in favor of the Nation. The Nation received payment in the amount of \$8,314,000 for years 1994 through 1996, which was the net of the award of \$12,569,000 less the attorney's fees and expenses of \$4,255,000. The Nation has reflected the 1997 claim of \$3,437,000 and the related attorney's fees of \$1,146,000, in the accompanying government-wide statement of net assets. These amounts have been reduced in FY 2005 to reflect a change in the estimate of the amount that could be received if the matter is resolved in the Nation's favor. This settlement will be reflected in the Nation's fund level financial statements as received.

CNB/CNE/CNI Matters—As of September 30, 2005, CNE had an outstanding note receivable from CNB of \$2,769,206, net of an allowance of \$1,100,000. The note bears interest at prime plus 1%, which at September 30, 2005, was set at 7.50%. CNE also provides funding for certain operating expenditures of CNB.

Mortgages receivable—Title VI—HACN has mortgages receivable at September 30, 2005 totaling \$27,140,937 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, 2005 as the Housing Authority believes the amounts to be collectable or if the houses are required by HACN, the value of the home will equal or exceed the balance of the loan. At September 30, 2005, the current and non-current portions of these mortgages receivable were \$515,426 and \$26,625,511, respectively.

6. INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2005 consisted of the following (in thousands):

Due to general fund from:	
Nonmajor enterprise funds	\$ 2,821
Internal service funds	1,445
Self Governance DOI - Roads	306
Self Governance DHHS	2,834
Housing and Urban Development	419
Nonmajor governmental funds	9,264
Total due to general fund from other funds	<u>\$ 17,089</u>
Due to nonmajor enterprise funds from:	
General fund	<u>\$ 14</u>
Due to internal service funds from:	
General fund	<u>\$ 1,830</u>

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.

Interfund transfers for the year ended September 30, 2005 consisted of the following (in thousands):

Transfer	Amount
To General fund from:	
Nonmajor governmental funds	\$ 4,445
Internal service funds	532
Total transfers to general fund	<u>\$ 4,977</u>
To internal service fund from:	
General fund	\$ 552
Self governance DOI Roads	84
Self governance DHHS	400
Nonmajor governmental funds	60
Total transfers to internal service fund	<u>\$ 1,096</u>
To enterprise fund from:	
General fund	\$ 814
Nonmajor governmental funds	2,075
Total transfers to enterprise fund	<u>\$ 2,889</u>
To nonmajor governmental funds from:	
General fund	\$ 816
Housing and Urban Development	107
Total transfers to nonmajor governmental funds	<u>\$ 923</u>

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.

An additional transfer of \$2,075,000 from the Special Revenue fund to the Enterprise fund is recorded to reflect the transfer of EDTA. This amount reflects the ending fund balance of EDTA in FY2004 as recorded using the modified accrual basis of accounting. An additional adjustment of \$988,000 was made to this transfer on the Enterprise fund to reflect the change in fund type and corresponding change to the accrual basis of accounting.

Another transfer occurred in March 2005 when the Nation transferred \$200,000 as an initial contribution to a CNB as a new wholly-owned tribal corporation. This was recorded as an expenditure by the Nation and a non-operating revenue by CNB. During 2005, HACN also contributed \$400,000 to the Nation for matching funds on a federal grant received by the Nation. This was recorded as an expense by HACN and a revenue by the Nation.

7. INVENTORIES

The Nation's inventories were comprised of the following at September 30, 2005 (in thousands):

	Internal Service Funds	Nonmajor Governmental Funds	Component Units	Total
Finished goods and raw materials	\$ -	\$ -	\$ 23,101	\$ 23,101
Food for distribution		698	-	698
Supplies	118	-	-	118
Less inventory reserves		-	(9,287)	(9,287)
Total inventories	<u>\$ 118</u>	<u>\$ 698</u>	<u>\$ 13,814</u>	<u>\$ 14,630</u>

The majority of the component unit inventory at September 30, 2005 relates to CNI, a component unit engaged in the production, assembly, and repair of electronic component parts for the telecommunications and other industries.

8. CAPITAL ASSETS

A summary of capital assets activity by major class, for the year ended September 30, 2005 follows (in thousands):

<u>Governmental Activities</u>	Balance, September 30, 2004	Additions and Net Transfers	Retirements	Balance, September 30, 2005
Activity by Major Class				
Capital assets, not being depreciated -				
Land	\$ 8,998	\$ 1,206	\$ (291)	\$ 9,913
Construction in process		5,350	-	5,350
Total capital assets, not being depreciated	<u>8,998</u>	<u>6,556</u>	<u>(291)</u>	<u>15,263</u>
Capital assets being depreciated:				
Buildings and improvements	26,164	1,013	(573)	26,604
Equipment	19,073	2,061	(1,421)	19,713
Land improvements		22		22
Total capital assets being depreciated	<u>45,237</u>	<u>3,096</u>	<u>(1,994)</u>	<u>46,339</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,642)	(620)	290	(7,972)
Equipment	(11,838)	(2,197)	1,203	(12,832)
Total accumulated depreciation	<u>(19,480)</u>	<u>(2,817)</u>	<u>1,493</u>	<u>(20,804)</u>
Total capital assets being depreciated, net	<u>25,757</u>	<u>279</u>	<u>(501)</u>	<u>25,535</u>
Activity by major class capital assets, net	<u>\$ 34,755</u>	<u>\$ 6,835</u>	<u>\$ (792)</u>	<u>\$ 40,798</u>

Depreciation expense was charged to functions as follows (in thousands):

Governmental activities:

Tribal Government	\$ 992
Health Services	486
Education Services	178
Human Services	95
Community Services	150
Other Tribal Services	<u>916</u>

Total Governmental activities depreciation expense \$2,817

<u>Business-type Activities</u>	Balance, September 30, 2004	Additions and Net Transfers	Retirements	Balance, September 30, 2005
Capital assets, not being depreciated -				
Land	\$ 105	\$ (24)	\$ -	\$ 81
Capital assets being depreciated:				
Buildings and improvements	6,427	1,750	-	8,177
Machinery and equipment	<u>2,296</u>	<u>429</u>	<u>(2)</u>	<u>2,723</u>
Total capital assets being depreciated	<u>8,723</u>	<u>2,179</u>	<u>(2)</u>	<u>10,900</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,509)	(637)	19	(2,127)
Machinery and equipment	<u>(1,714)</u>	<u>(289)</u>	<u>-</u>	<u>(2,003)</u>
Total accumulated depreciation	<u>(3,223)</u>	<u>(926)</u>	<u>19</u>	<u>(4,130)</u>
Total capital assets being depreciated, net	<u>5,500</u>	<u>1,253</u>	<u>17</u>	<u>6,770</u>
Business-type activities capital assets, net	<u>\$ 5,605</u>	<u>\$ 1,229</u>	<u>\$ 17</u>	<u>\$ 6,851</u>

Component Unit Activities	Balance, September 30, 2004	Revisions	Balance 09/30/04 (Revised)	Additions and transfers in	Retirements and transfers out	Balance, September 30, 2005
CNE and HACN:						
Capital assets, not being depreciated:						
Land	\$ 19,573	\$ 1,261	\$ 20,834	\$ 2,853	\$ (291)	\$ 23,396
Construction in progress	31,943	(23,218)	8,725	16,865	(17,728)	7,862
Total capital assets not being depreciated	51,516	(21,957)	29,559	19,718	(18,019)	31,258
Capital assets being depreciated:						
Buildings and improvements	197,264	8,852	206,116	13,112	(4,381)	214,847
Machinery and equipment	39,743	9,254	48,997	14,282	(232)	63,047
Total capital assets being depreciated	237,007	18,106	255,113	27,394	(4,613)	277,894
Less accumulated depreciation for:						
Buildings and improvements	(64,229)	-	(64,229)	(8,628)	3,062	(69,795)
Machinery and equipment	(19,504)	-	(19,504)	(11,353)	209	(30,648)
Total accumulated depreciation	(83,733)	-	(83,733)	(19,981)	3,271	(100,443)
Total capital assets being depreciated, net	153,274	18,106	171,380	7,413	(1,342)	177,451
CNE and HACN activities capital assets-net	204,790	(3,851)	200,939	27,131	(19,361)	208,709
Other Component Unit activities - CNHHS and CNI capital assets, net	2,633	(1,719)	914	203	(110)	1,007
Total of the Component Unit activities-capital assets, net	\$ 207,423	\$ (5,570)	\$ 201,853	\$ 27,334	\$ (19,471)	\$ 209,716

The beginning construction in progress balance for HACN differs from the amount presented in the prior year report by \$3,850,760 to reflect the reclassification of work in progress on homes being built to sell to eligible families under the Title VI program to inventory, rather than capital assets.

The beginning capital assets balance of CNB at September 30, 2004 of \$1,717,865 has been reclassified to investments.

Subsequent to the issuance of the 2004 financial statements, CNE management determined that although total capital asset balances presented at September 30, 2004, including accumulated depreciation, were materially correct there were errors in the classifications of these balances between the various categories of capital assets reported. The reclassification is needed because \$19,368,000 in work in process at September 30, 2004 represented projects that were substantially complete and should have been reclassified to various other capital asset categories.

9. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2005 was as follows (in thousands):

<u>Governmental Activities</u>	<u>Balance,</u> October 1, 2004	<u>Additions</u>	<u>Reductions</u>	<u>Balance,</u> September 30, 2005	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
Notes Payable						
3.7% Note payable to Bank of America. See (1) below.	\$ 4,436	\$ -	\$ (443)	\$ 3,993	\$ 459	\$ 3,534
Note payable to bank in fixed principal payments. See (2) below.	19,078	13,230	(1,253)	31,055	1,854	29,201
Note payable to bank bearing interest at Chase Prime (4% at September 30, 2005) in monthly installments of \$18 including interest, with final payment due in October 2006, collateralized by future operating transfers from CNE (limited to \$18 per month) to the Nation.	334	-	(203)	131	130	-
Note payable to bank collateralized by real estate bearing interest at 4% in monthly installments of approximately \$5,000 maturing in 2008.	219	-	(49)	170	51	119
Note payable to an individual in annual installments of \$80, without interest.	160	-	(160)	-	-	-
Note payable to the Bureau of Indian Affairs in monthly installments of \$2, including interest of 7.625%, with final payment due in January 2010, collateralized by certain lease proceeds.	116	-	(19)	97	-	-
Capital Leases						
Capital leases payable to Caterpillar Financial Services with aggregate monthly installments of \$9,711 including interest, with interest rates ranging from 4.29% to 4.44% and final payment due in October 2009. Secured by related equipment.	523	-	(84)	439	91	348
Total long-term debt	24,866	13,230	(2,211)	35,885	2,605	33,280
Compensated Absences (See (3) below)	3,322	5,276	(4,991)	3,607	3,607	-
Total long-term debt and compensated absences	\$ 28,188	\$ 18,506	\$ (7,202)	\$ 39,492	\$ 6,212	\$ 33,280

Due to the change in fund type of EDTA, the October 1, 2004 balance of \$988,000 was moved from Governmental Activities to Business-Type Activities.

- (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. The Nation is in compliance with the financial covenants of this financing agreement at September 30, 2005.

- (2) In July 2002, the Nation entered into a \$50,000,000 loan agreement, 95% guaranteed by United States Department of Housing and Urban Development Title VI program. The loan proceeds are divided into two separate "pools" which carry different interest rates over the life of the loan. Pool A, with a balance at September 30, 2005 of \$10,926,000 carries an interest rate of 6.7%. Pool B, with a balance at September 30, 2005 of \$20,130,000 carries a variable interest rate, reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2005 was 4.53%. Pool A is repayable in monthly principal payments of \$54,358 through May 1, 2022, plus interest. Pool B was an interest only loan through March 31, 2005. Effective April 1, 2005 monthly principal payments of \$36,232 are due through June 1, 2022, plus interest. The loan matures in December 2022. 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 Housing Authority 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 Housing Authority was required to deposit securities in escrow with Bank One in an amount equal to five percent of the total loan balance, or approximately \$2,500,000. 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 Housing Authority. 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. In 2005, \$13,231,000 was drawn against the loan and passed through to the HACN. Accordingly, this amount together with prior draw downs is reported as long-term debt and as a note receivable from HACN. The Nation's note receivable from HACN at September 30, 2005 was \$31,056,000, of which, \$1,854,000 is included in notes receivable current and \$29,202,000 is reflected as long term notes receivable in the government-wide statement of net assets. (See Footnote 2 on page 59.)
- (3) 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.

The balance of long-term debt for business-type activities at September 30, 2005, was \$2,430,000. The balance of Long-Term Debt for Component Units at September 30, 2005, was \$40,035,000. Long-term debt in the business-type activities and component units at September 30, 2005 consisted of the following (in thousands):

<u>Business-Type Activities</u>	Balance, October 1, 2004	Additions	Reductions	Balance, September 30, 2005	Current Portion	Long-Term Portion
Tsa-La-Gi Apartments						
6.875% note payable to the U.S. Department of Housing & Urban Development (HUD) in monthly installments of \$10,000 including interest, with final payment due 2012, secured by certain land and buildings.	\$ 732	\$ -	\$ (76)	\$ 656	\$ 81	\$ 575
Landfill Operations						
4.0% note payable to Caterpillar Financial Services in monthly installments of \$4,000 including interest with final payment due April 2008. Secured by related equipment.	186	-	(49)	137	137	
4.865% note payable to Derricks Leasing and Financial Company in monthly installments of \$4,353 including interest with final payment due July 2008. Secured by related equipment.	182	-	(44)	138	138	-
7.75% note payable to Bank of Cherokee County in monthly installments of \$8,165 including interest, with final payment due December 2005, secured by related equipment.	117	-	(93)	24	24	
4.75% note payable to Caterpillar Financial Services in monthly installments of \$8,000 including interest with final payment due December 2009. Secured by related equipment.		436	(58)	378	82	296
Economic Development Trust Authority						
Note payable to the Department of Agriculture in variable annual installments including interest of 1% annual, with final payment due October 16, 2030.	988	152	(43)	1,097	23	1,074
Total	<u>\$ 2,205</u>	<u>\$ 588</u>	<u>\$ (363)</u>	<u>\$ 2,430</u>	<u>\$ 485</u>	<u>\$ 1,945</u>

<u>Component Units</u>	<u>Balance</u> <u>October 1,</u> <u>2004</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>September 30,</u> <u>2005</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
Housing Authority of the Cherokee Nation ("HACN")						
Note payable to Cherokee Nation in fixed monthly principal payments of \$44,201, with interest calculated on the outstanding balance each month. 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 of the securities deposited to the pledge account.	19,024	13,231	(1,354)	30,901	1,854	29,047
Cherokee Nation Industries, Inc. ("CNI")						
Revolving line of credit.	7,705	-	(3,171)	4,534	18	4,516
Note payable from a bank with monthly installments of \$5 including interest at the treasury rate plus 2.5% (6.213% at June 30, 2005). The note matures in September 2005 and is secured by equipment.	57	-	(56)	1	1	
Promissory note payable to creditor for restructuring an existing trade payable initiated in fiscal 2002 for inventory purchases totaling \$7,957,000 to a long-term promissory note. From July 2003 to March 2005 payments on this line of credit were based on the amount of sales of products securing the line of credit. On March 15, 2005, the lesser of 50% of the remaining applicable inventory or any principal in excess of \$1,280 was forgiven. The adjusted balance of the note of March 15, 2005, after reflecting debt forgiveness of \$5,403,000, will then be amortized over 72 monthly installments, with interest calculated at 4%.	6,216		(5,462)	754	124	630
Cherokee Nation Businesses ("CNB")						
Revolving Promissory Note.	<u>2,112</u>	<u>1,733</u>		<u>3,845</u>	-	<u>3,845</u>
Total	\$ 35,114	\$ 14,964	\$ (10,043)	\$ 40,035	\$ 1,997	\$ 38,038

HACN, during fiscal year 2005, received loan advances totaling \$13,231,000 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 at September 30, 2005 was \$10,871,621 carries an interest rate of 6.7%. Pool B, whose balance at September 30, 2005 was \$20,029,952 carries a variable interest rate reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2005 was 4.53%. Pool A is repayable in monthly principal payments of \$54,358 through May 1, 2002, plus interest. Pool B principal payments of \$100,150 began March of 2005 and are scheduled through June 1, 2022, plus interest. During fiscal year 2005, HACN made total principal payments on Pool A of \$652,297 and on Pool B of \$701,048.

CNI has a \$14 million revolving line of credit expiring October 2007. At June 30, 2005, there was approximately \$4,534,000 borrowed against this line of credit. This line of credit is collateralized by substantially all of the assets of CNI. Interest on borrowings against the line of credit is based on the bank's

prime rate (4.25% at June 30, 2005) and is payable monthly. The line of credit is 80% guaranteed by the Bureau of Indian Affairs. The amount of funds advanced on this line of credit are not to exceed 50% of eligible inventory plus 80% of eligible accounts receivable of \$14,000,000 whichever is less.

On March 15, 2005 the lesser of 50% of the remaining applicable inventory or any principal in excess of \$1,280 will be forgiven at the option of CNI. The adjusted balance will be amortized over 72 monthly installments, with interest calculated at 4%.

In April 2002, CNI and a creditor restructured an existing trade payable for inventory purchases for \$7,957,000 to a long-term promissory note. Under the terms of the restructuring, CNI's ultimate liability under the promissory note will be dependent upon sales of certain CNI products through March 15, 2005 and other factors. CNI has followed Statement of Financial Accounting Standards Number 15, *Accounting by Debtors and Creditors for Troubled Debt Restructurings*, whereby future cash flows are compared to the carrying value of the debt. The cash flows are contingent based on future sales. As a result, a gain of \$5,403 as debt forgiveness has been recognized for the year ending June 30, 2005. Any potential gain that may occur under the restructured note agreement would be recognized when future cash flows are known with certainty.

CNB has received a line of credit from CNE in the form of a Revolving Promissory Note for up to \$4,000,000. Interest is prime rate plus one percent (7.5% at September 30, 2005), and is to be paid monthly commencing July 31, 2005. The interest incurred through July 31, 2005 was added to the principal balance and thereafter interest payments are made on a monthly basis. The unpaid principal of the note is due on June 30, 2007.

CNHHS received a line of credit on September 7, 2005 with a bank totaling \$371,261, which expires on June 7, 2006. Interest accrued at 7.5% and is payable monthly. The purpose of the line of credit is to finance the construction of a new office building, anticipated to be completed in March 2006. The line of credit is collateralized by the property. Amount outstanding at September 30, 2005 was \$4,896.

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

	Principal	Interest	Total
Governmental Activities:			
2006	2,613	1,807	4,420
2007	2,511	1,688	4,199
2008	2,538	1,577	4,115
2009	2,514	1,460	3,974
2010	2,404	1,346	3,750
2011 through 2015	10,791	4,985	15,776
2016 through 2020	9,272	2,399	11,671
2021 through 2025	3,242	241	3,483
Total	<u>\$ 35,885</u>	<u>\$ 15,503</u>	<u>\$ 51,388</u>
Business-Type Activities:			
2006	485	76	561
2007	206	60	266
2008	222	49	271
2009	233	38	271
2010	170	27	197
2011 through 2015	380	54	434
2016 through 2020	212	32	244
2021 through 2025	222	22	244
2026 through 2030	234	10	244
2031 through 2035	66	1	67
Total	<u>\$ 2,430</u>	<u>\$ 369</u>	<u>\$ 2,799</u>

10. CNE LINE OF CREDIT

CNE entered into a \$40 million dollar, two part, revolving line (Line) of credit with a bank on October 14, 2003. The line provides for a separate \$25 million dollar reducing line (Line A) available through November 1, 2006 and a separate \$15 million dollar non-reducing line (Line B) available through November 1, 2006. Both lines may be renewed for one additional year with the payment of a fee. The non-reducing line was renewed November 1, 2005 and extended to November 1, 2006. Both lines have an incentive based pricing rate scale based on a specific ratio calculation, determined annually. The initial rate was prime plus 25 basis points. At September 30, 2005, the interest rate in effect was 6.75%. No amounts were drawn on Line A or B at September 30, 2005. Unused borrowings under the Line are subject to a commitment fee of 02%. The Line is secured by a pledge of revenues, inventory, accounts receivable, and equipment. The credit agreement subjects CNE to a number of covenants, including certain financial covenants. As of September 30, 2005, CNE was in compliance with all the respective covenant requirements in the credit agreement.

11. TRUST LIABILITY

The Housing Authority 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.

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 that HACN operates. 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 others amounts credited to them in accordance with DHUD 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 DHUD, 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 \$ 9,081,507 as of September 30, 2005. This along with other credits to these tenant/homebuyers totaled \$ \$10,562,914 at September 30, 2005. 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, 2005, other amounts included in this category include escrow deposits held by the Housing Authority associated with the Title VI program mortgages totaling \$296,200, Lease\Purchase Program equities of \$ \$323,599 on other lease-to-own programs and low income housing tenant's security deposits of \$111,000.

12. FUND BALANCE DESIGNATIONS AND RESERVATIONS

At September 30, 2005, the Nation had a total General Fund fund balance of \$58,967,000. This balance includes \$34,762,000 that has been reserved by the Legislative Act or restricted by external sources and an unreserved fund balance of \$24,175,000. A brief description of the reserved elements of the Nation's General Fund fund balance follows:

Motor Fuel Tax—The Nation began receiving Motor Fuel Tax dollars in 1997 and based on existing agreements with the State of Oklahoma, will continue receiving such funds until 2016. These funds are subject to general restriction under the agreement with the State of Oklahoma. Cherokee Nation Legislative Act 10-97 further restricted the use of these funds to those matters specifically appropriated by Act 10-97 and future legislative acts. A summary of activity in this reserved fund balance during the year ended September 30, 2005 follows (in thousands):

Balance at beginning of year	\$ 18,331
FY2005 Motor Fuel Tax revenues	8,676
Interest earnings on unexpended funds	451
Actual expenditures	<u>(5,946)</u>
Balance at end of year	<u>\$ 21,512</u>

Motor Vehicle Tax—In 2002, the Nation negotiated with the State of Oklahoma a licensing compact in which the Nation could license motor vehicles and other vehicles owned by the Nation's enrolled citizens

living within the jurisdictional area of the Cherokee Nation. The Cherokee Nation Motor Vehicle Code provided for annual payments by the Nation of 38% of such of revenues to Oklahoma public schools, Sequoyah High School, and Cherokee Nation Head Start Centers, an amount equal to 20% of such revenues for counties, municipalities, and federally- and/or state-funded highway construction or maintenance projects located within the jurisdictional area, and up to 20% of the remaining revenues net of costs incurred in administering the tag office for funding local law enforcement within the jurisdictional area. The term of the compact shall remain for a period of ten years. Amounts restricted for schools, highways, and law enforcement at September 30, 2005 totaled approximately \$4,761,000. A summary of activity in this reserved fund balance during the year ended September 30, 2005 follows (in thousands):

Balance at beginning of year	\$ 4,693
FY2005 Motor Vehicle Tax revenues	6,382
Interest earnings on unexpended funds	64
Actual expenditures	<u>(6,378)</u>
Balance at end of year	<u>\$ 4,761</u>

Indirect Cost Settlement-In 2001, the Nation was awarded a settlement as a member of the class action from the 10th Circuit Court of Appeals for under-recovered indirect costs for the years 1989-1993 (Ramah Navajo Chapter, et al v. Norton). Use of funds is only restricted by the terms of the settlement agreement approved by the Court for activities under P.L. 93-638 as amended. These funds were further restricted by Legislative Act 04-01, to those matters specifically appropriated by the Tribal Council. A summary of activity in this reserved fund balance during the year ended September 30, 2005 follows (in thousands):

Balance at beginning of year	\$ 4,947
Interest earnings on unexpended funds	128
Actual expenditures	<u>(58)</u>
Balance at end of year	<u>\$ 5,017</u>

Cash Reserve—In 2002, Legislative Act 5-02, authorized the establishment of a permanent Cash Reserve Fund to be maintained at 1.75% of total authorized appropriations in the annual comprehensive budget for each and every subsequent year thereafter. The total of this reserve at September 30, 2005 was \$1,256,000.

Sequoyah High School- In 2003, Legislative Act 5-03, appropriated \$4,000,000 from the General Fund, specifically derived and/or accumulated from the CNE dividends of the fiscal year to fund the construction of the Multi-Purpose Facility at Sequoyah High School. This amount was to be “Reserved by Appropriation” and placed in a separate, restricted interest bearing account pending necessary architectural and engineering work to be performed in obtaining a specific project cost estimate. Legislative Act 17-04 increased the amount to be funded to the Multi-Purpose Facility by \$2,000,000 and authorized the funds to be reallocated to the Construction Fund from current year reserves to cover project costs. It did not require a reservation of the fund balance on the additional \$2,000,000. In 2005, Legislative Act 27-05 provided for a bridge loan from the General fund’s Contingency Reserve to the Sequoyah High School Multi-Purpose Facility Construction fund in the amount of \$1,500,000. No transfers of this funding occurred by the end of FY2005, and the act

did not require a reservation of the \$1,500,000. The reserved fund balance and interest accumulated on the Sequoyah High School Multi-Purpose Facility at September 30, 2005 follows (in thousands):

Balance at beginning of year	\$ 4,060
Interest earnings on unexpended funds	107
Actual expenditures	<u>(3,788)</u>
Balance at end of year	<u>\$ 379</u>

Arkansas River Drybed Lands Settlement- In FY 2004, Legislative Act 5-04 established the policies and procedures for governing the use and expenditure of trust funds awarded to the Cherokee Nation under the Cherokee, Choctaw, and Chickasaw Nations Claims Settlement Act ("Settlement Act"). The Settlement Act specifically set aside trust funds to be appropriated by Congress for Trust Land Acquisitions. The settlement proceeds, after payment of legal fees are reserved for the purchase of land in designated areas. The reserved fund balance and interest accumulated on the Arkansas River Drybed Lands Settlement at September 30, 2005 follows (in thousands):

Balance at beginning of year	\$ -
Transfer from Judgement Funds	4,050
Reserve for attorney fees	450
Actual expenditures	<u>(2,633)</u>
Balance at end of year	<u>\$ 1,867</u>

Unreserved General Fund—A summary of activity in the unreserved General Fund balance for the year ended September 30, 2005 follows (in thousands):

Unreserved fund balance at beginning of year	\$ 10,726
FY2005 General Fund revenues and transfers in	54,027
Less:	
Additional funds restricted by Tribal Council in 2005	(1,505)
Actual expenditures and transfers out	<u>(39,073)</u>
Unreserved fund balance at end of year	<u>\$ 24,175</u>

The remaining fund balance reserved by legislative acts resides in other governmental funds.

13. **LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS**

The Nation operates a solid waste landfill in eastern Oklahoma. The Nation accounts for this landfill operation in accordance with the provisions of GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs" ("Statement No. 18"), in the Landfill Operations 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, Statement No. 18 requires proprietary funds, such as Landfill Operations, to report a portion of these costs as an operating expense in each period based on landfill capacity and utilization. The \$1,604,000 reported as Landfill Closure and Postclosure Care Liability at September 30, 2005 (included in "Other Noncurrent Liabilities"), represents the cumulative costs recognized to date based on the existing use of 29% of the total estimated capacity of the landfill. Landfill Operations will recognize the remaining estimated cost of closure and postclosure care of approximately \$4.8 million 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 2005. The Nation expects the landfill to have a remaining life of approximately 30 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The Nation makes annual contributions to a restricted bank account to finance closure and postclosure care. At September 30, 2005, restricted cash and cash equivalents of approximately \$1,691,000 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.

Effective July 1, 2005, the Cherokee Nation entered into an operating agreement with Indian County Investments, LLC, ("ICI") to have the exclusive right to manage and operate Cherokee Nation Sanitary Landfill ("CNSL"). This agreement has a term of the life of the facility, which is an estimated 30 plus years. Within this agreement ICI has agreed to pay the Nation \$3 million dollars, for certain equipment and the operating rights for the facility, of which, \$300,000 was paid to the Nation by ICI upon execution of this agreement which is reported as deferred revenue at September 30, 2005. The remaining \$2.7 million is due to the Nation upon completion by ICI of the facility master plan and approval by the Cherokee Nation Environmental Protection Commission ("CNEPC"). Approximately \$1 million of the \$3 million is for the purchase of assets, the remaining \$2 million is attributed to the operating rights and will be amortized over the remaining estimated life of the facility.

Under the agreement the Nation is to receive a quarterly host fee that is based upon actual tonnage generated at the CNSL. Until CNSL has received approval of the facility master plan from the CNEPC, ICI will pay to the Nation a host fee of \$2.00 per ton of waste generated at the CNSL quarterly. Upon completion of this permit, ICI has committed to pay the Nation an annual guaranteed host fee of \$500,000 per year for the subsequent two (2) years, \$750,000 for year 3 and \$900,000 for year 4 and all subsequent years.

14. 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 \$150,000 per year per employee. Amounts over \$150,000 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 \$150,000 per employee per year. 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, 2005. Additionally, settlement amounts have not been in excess of insurance coverage in each of the past three years.

Workers' Compensation benefits are now provided within the All Lines Aggregate program described below. There is \$100,000 retention with a maximum benefit of \$1,000,000 each accident or disease/each employee applies.

In most other areas, the first \$100,000 of risk is retained with the *All Lines Aggregate* program responding to losses occurring between \$100,000 - \$1,000,000. A stop loss equivalent to 1.8% of payroll is in place to limit the Nation's exposure. Coverage provided by the *All Lines Aggregate* program include the following exposures: Commercial Auto, General Liability, Crime, Employee Dishonesty, Commercial Property, Builders' Risk, Equipment, Directors' & Officers' Liability, Errors and Omissions Liability, Law Enforcement Officials Liability, Employee Benefit Liability, Employment Related Practices Liability, Medical Malpractice and Workers' Compensation. A \$10,000,000 umbrella goes over most underlying liability coverage(s) with the exception of Medical Malpractice.

The Nation's reported employee health claims liability of \$3,303,000 at September 30, 2005, has been recorded in accordance with GASB Statement No. 10, 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 have been as follows (in thousands):

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Balance at End of Year</u>
2004	\$ 1,404	\$ 12,742	\$ (11,944)	\$ 2,202
2005	\$ 2,202	\$ 13,295	\$ (12,194)	\$ 3,303

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

15. 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 25% 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 Group Leader 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 total gross payroll for fiscal 2005 was approximately \$71 million, which included approximately \$67.5 million for employees covered by the plans.

Contributions to the 401(k) plan for 2005 were \$5,193,275. Contributions expressed in dollars and percent of covered payroll were: Nation \$2,269,607, 3.4%, and participants \$2,923,668, 4.3%.

Trend Information
(in thousands)

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
2003	\$ 1,781	100%
2004	\$ 2,073	100%
2005	\$ 2,269	100%

In 2004 the Nation sponsored a deferred compensation 457(B) plan, which utilizes Nationwide Trust Company, FSB as trustee. A deferred compensation plan provides retirement benefits and provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. Under a deferred compensation plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of those contributions. The 457(b) plan mirrors the 401(k) eligibility requirements and also allows participation of elected officials. The plan year is January 1 through December 31. Participants become fully vested after four years of participation in the plan. Employees may contribute up to 100% 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%, not to exceed a total combined match of 7% in all retirement plans. The plan is administered by the Group Leader 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. Contributions to the 457(b) plan for 2005 were \$257,088 of which \$68,644 was required and made by the Nation and \$188,444 was made by participants.

The discretely presented component units maintain separate employee retirement plans. Details of these plans are available in the reports of the respective component units.

16. COMMITMENTS AND CONTINGENCIES

Delaware Litigation—In 1998, Cherokee Nation challenged the Secretary of the Interior's decision to recognize the Delaware Tribe of Indians as a federally recognized Indian tribe existing independently of the Cherokee Nation. The 10th Circuit Court in 1994 reversed the District Court, holding that the Delaware were "incorporated" into the Cherokee Nation by an 1867 treaty and thus not a federally recognized Indian tribe.

The United States Supreme Court denied certiorari on October 3, 2005. Final judgment was filed on October 26, 2005. Negotiations are ongoing to resolve issues concerning the relationship of the parties.

Citizenship Litigation—The Nation is involved with two pending cases involving citizenship in the Cherokee Nation. One case, filed in the District Court, has a pending motion to dismiss. The second case, filed in the Cherokee Nation Judicial Appeals Tribunal has been ruled in favor of the plaintiff as of March 7, 2006. The net impact of these cases is not certain but is not expected to have a material adverse impact on the Nation.

Federal Grants—In the normal course of operations, the Nation and its component units receive grant funds from various federal agencies. The grant programs are subject to audit 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.

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.

HACN Matters—The HACN has provided a “Tax Credit Recapture Guarantee” to the Limited Partners of Jay Senior Housing, Stilwell Senior Housing, 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 HACN has also provided “Operating Deficit Guarantees” to the Limited Partners of Jay and Stilwell Senior Housing Limited Partnerships and Wisdom Keepers Limited Partnerships which would require the Housing Authority to provide capital for operations should the need arise.

CNE Matters—New games continue to be introduced at the gaming sites, which management of CNE believes are permitted under Class II gaming restrictions or the Compact; however, the permissibility of these games can and may be challenged by licensing and governing authorities that exercise jurisdiction over these activities.

CNE has entered into a guarantee agreement with the Nation related to the Nation’s 1996 note agreement committing future operating transfer amounts up to \$216,000 annually through 2012.

CNE, as part of the purchase price of Will Rogers Downs, is obligated to pay the sellers \$1,500,000 upon the land being placed into trust status with the Bureau of Indian Affairs. As of September 30, 2005, the land had not been put into trust. Additionally, as part of the purchase price, CNE is obligated to make “earnout” payments of either 25% or 40% of an amount known as “net cash flow share” determined from a formula of net income from WRD plus various adjustments. The payment percentage is 25% if the land is in trust and 40% if not. The earnout payments continue for either seven or eight years, depending upon events, as which time, CNE may “buy out” its obligation to continue making “earnout” payments. Otherwise the earnout payments continue. As WRD was limited in its operations since being purchased by CNE in March 2004, no earnout payments were required for 2005.

17. CNI INVESTMENT IN GLOBAL ENERGY DISTRIBUTION GROUP, LLC

CNI entered into a unit purchase agreement with Global Energy Distribution Group, LLC (“GEDG”), dated May 18, 2005, to purchase approximately 122,000 units of GEDG, representing approximately 61% of the issued and outstanding units in GEDG. As of June 30, 2005, CND had completed the initial purchase of 24,390 units representing 12.2% of the issued and outstanding units in GEDG at a purchase price of

\$500,000. As a condition of the Unit Purchase Agreement entered into on May 18, 2005, Global Energy Group, Inc. ("GEG"), a Delaware corporation, entered into a securities purchase agreement, with the members of GEDG to purchase GEDG through the issuance of 81,746,409 shares of GEG common stock, representing approximately 81% of the GEG common shares expected to be outstanding following the acquisition.

The second closing of the unit purchase agreement was completed on August 19, 2005. CNI acquired an additional 97,910 units of GEDG for a total purchase price of \$2,000,000 which was financed from CNI's revolving line of credit. The securities purchase agreement was completed on August 19, 2005. CND exchanged 122,000 units of GEDG for 49,865,310 shares of GEG. In addition GEG assigned voting rights for two classes of voting Preferred Stock, Series A and Series B, to CND. CNI has an exclusive manufacturing agreement with GEG to manufacture products for GEG. CND has the exclusive distribution rights to GEG products in the government market sector of the business. As of June 30, 2005, CNI had \$380,000 of GEG inventory on hand.

18. SUBSEQUENT EVENTS

CNB/CNE/CNI Matters—Effective December 14, 2005, the Nation passed legislation which authorized the transfer of the ownership of CNE, CNI and CND from the Nation to CNB, a wholly owned subsidiary of the Nation. The transfers of ownership have not occurred as of the issuance of this report, but are expected to occur before the end of FY2006. The legislation sets aside a minimum of 40% of net income from CNE operations will be used to fund expansions in CNE's core businesses for fiscal years 2006 through 2008. The remaining net income, after dividends of 30%, will be available to fund diversification and jobs growth efforts of all business operations.

CNE Matter—In January 2006, CNE loaned the Nation \$1,300,000 to be used for expansion of a landfill. The note bears interest of 7% per annum and is paid in monthly installments of \$15,096 beginning January 30, 2006 through December 2007, with all remaining principal and interest due on December 30, 2007.

CNB Matters—In January 2005, CNB was notified that it had been selected to receive five grants for which it had applied under the Community-Oriented Connectivity Broadband Grant Program administered by the U.S. Department of Agriculture Rural Utilities Service aggregating \$3,444,370. The funds provided by the grants together with a required match of 15%, aggregating \$607,830 to be provided by CNB, are designated to be used to provide wireless broadband services to five rural communities located in eastern Oklahoma. Although the grants were applied for in the name of CNB, Connex has an agreement with a service provider, who assisted in locating and applying for the grant funds to pay fees of \$103,331 for such services when and if the funding is received. As of this report, the grant projects have not been initiated and no funds were drawn on the grant award. Cherokee Nation, through the Information Systems group, has agreed to administer the grants, pending approval from U.S. Department of Agriculture Rural Utilities Service.

Subsequent to September 30, 2005, Connex had drawn down all funding available under its term and revolving line of credit arrangements with CT, and Ct has evidenced no interest in providing additional financial support. Connex minority owners have provided continual funding to Connex either directly, through advances, or indirectly, by taking salary reductions and relaxing payment requirements on Connex' tower leases with Gold Towers (jointly owned by Ron Gates and Elmer Hemphill). The minority owners have committed to continue funding the cash needs of Connex as they progress through the development stage, which based on current estimates, will be the fiscal year ending September 30, 2007.

CNHHS Matter—Effective October 1, 2005, CNHHS implemented a 401(k) plan and a flexible spending plan (Section 155) to all eligible participants.

Cherokee National Historical Society—In November 2005, the Nation, CNE, and the Cherokee National Historical Society (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. CNE will provide marketing services, including group sales and operating the museum store. By the Memorandum of Agreement, CN is to perform all remaining operational and educational functions such as accounting, purchasing, contracts, human resources, information technology, and facilities maintenance.

Health Care Capital Construction-Tribal Council has approved borrowing up to \$30 million for construction of Health Care facilities located in Muskogee and Nowata, and the expansion of the existing Sallisaw Health Care facility. Subsequent to September 30, 2005, the Nation entered into a joint venture agreement with Indian Health Services (IHS) to fund the operational costs for the Muskogee facility upon completion. The estimated completion date of the Muskogee facility is 2008.

Tobacco Compact with the State of Oklahoma – The Nation has requested arbitration to resolve differences arising from its’ tobacco compact with the state of Oklahoma. The differences arose when the state repealed sales tax on cigarettes, which the Nation contends is forbidden in the terms of the compact. The arbitration process is not expected to have any significant impact on the financials statements of the Nation.

19. HACN RESTATEMENT

At September 30, 2004, HACN reported certain account balances on the statement of net assets for investments, loans and other costs incurred for the Low Income Housing Tax Credit projects. During the current year, HACN concluded that it had not properly accounted for the loans, project costs, land leased to partnerships, and development fees initially recorded in connection with these partnership transactions. The actual amounts reflected in the prior year statement of net assets were as follows:

Notes receivable—partnerships	\$1,620,000
Mortgages receivable -partnerships	2,020,000
Investment in partnerships	1,206,565
Land leased to partnerships	<u>308,215</u>
Total	<u>\$5,154,780</u>

These balances did not reflect the nature of the actual investment, loans and other costs incurred by HACN. The amount reflected as investment in partnerships and land leased to partnerships totaling \$1,514,780, actually represented the costs of land and improvements leased to certain of the partnerships for 99 years at \$1 per year for which HACN received no equity in the partnerships. This effectively represented a contribution that should have been expensed when made. The notes and mortgage balances reflected above actually represented receivables of \$2,250,000 and equity investments in the partnerships of \$1,390,000. Many of the receivables reflect no interest rate and one receivable reflects a rate that is not considered commensurate with the risk in these transactions. Had these receivables been discounted to reflect an appropriate rate of return accorded to similar investments, the notes would have been reduced to a value of approximately \$93,000, resulting in a reduction of the related assets of \$2,157,000. The discount should be accreted back to income over the term of the loans. HACN also received a development fee of \$991,000 in connection with these partnerships, of which approximately \$390,000 was recorded as revenue in 2004. Since HACN performed no substantive services during development, and no such services are expected in the future, it was determined that such fees should have been used to reduce the investment in loans and land costs incurred by HACN in connection with these partnership transactions.

As a result of the above adjustments, the net assets at September 30, 2004, have been restated as follows:

Net assets—September 30, 2004—as previously reported	\$ 114,887,998
Adjustment to:	
Correct accounting for land and improvements donated to partnerships	(1,514,780)
Discount receivables from partnerships	(2,157,000)
Properly account for development fees	<u>601,000</u>
Net assets—September 30, 2004—as restated	<u>\$ 111,817,218</u>

Ending net assets for HACN, as of September 30, 2004, were approximately \$111,817,000 as restated.

OTHER
SUPPLEMENTARY
INFORMATION

NONMAJOR
GOVERNMENTAL FUNDS

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 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.
- **Title VI** – 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 Cherokee Nation Housing Authority, a component unit of the Nation.
- **EDTA** – Changed to Enterprise fund type in FY2005.
- **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 monies are expended in accordance with plans for use and distribution adopted by the Nation and approved as applicable, by the Secretary of the Interior. The judgment fund is controlled and administered by the Bureau of Indian Affairs.
- **Tribal Trusts** – Established to account for income received from external users of tribal lands, such as oil and gas royalties. The Bureau of Indian Affairs administers these funds which may be expended upon request and approval by the Secretary.

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 Educational Trust** – Established to account for funds endowed by Glenn L. and Faye V. Gammon Trust. The income from this educational 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, 2005
 (Dollars in Thousands)

	Special Revenue Funds										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	Title VI	EDTA	Other Grants	Tribal Judgment Funds	Tribal Trusts	Total		Sequoyah Endowment	Education Trust
ASSETS																	
Cash and cash equivalents	\$ 2,812	\$ 7,541	\$ 25	\$ 5,906	\$ -	\$ 40	\$ 1	\$ 7,567	\$ 300	\$ -	\$ 771	\$ 5,307	\$ 951	\$ 31,221	\$ -	\$ -	\$ 31,221
Investments	-	-	-	-	-	-	-	-	-	-	261	10,335	-	10,596	-	-	10,596
Receivables, net	69	-	417	-	31	147	251	2	-	1,465	-	3,155	3	5,540	-	-	5,540
Inventories	-	-	-	-	698	-	-	-	-	-	-	-	-	698	-	-	698
Notes receivable	-	-	-	-	-	-	-	-	-	163	-	-	-	163	-	-	163
Other current assets	-	-	-	-	-	418	-	-	-	-	-	-	-	418	-	-	418
Restricted cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	-	-	-	-	219	319	538
Total assets	\$ 2,881	\$ 7,541	\$ 442	\$ 5,906	\$ 729	\$ 605	\$ 252	\$ 7,569	\$ 300	\$ -	\$ 2,660	\$ 18,797	\$ 954	\$ 48,636	\$ 219	\$ 319	\$ 538
LIABILITIES AND FUND BALANCE																	
Liabilities:																	
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 4	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 133	\$ -	\$ 39	\$ -	\$ -	\$ 176	\$ -	\$ -	\$ 176
Due to other funds	235	35	438	455	31	272	252	737	-	1,671	-	5,000	64	9,230	34	-	9,264
Other liabilities	-	-	-	-	-	330	-	-	-	11	-	-	-	341	-	-	341
Deferred grant revenue	2,625	7,120	-	5,451	-	3	-	6,532	-	551	-	-	-	22,282	-	-	22,282
Deferred revenue	21	-	-	-	698	-	-	-	-	-	-	-	-	719	-	-	719
Total liabilities	2,881	7,155	442	5,906	729	605	252	7,269	133	2,272	5,040	64	64	32,748	34	-	32,782
Fund balance, reserved	-	386	-	-	-	-	-	300	167	388	13,757	890	890	15,888	185	319	16,392
Total liabilities and fund balance	\$ 2,881	\$ 7,541	\$ 442	\$ 5,906	\$ 729	\$ 605	\$ 252	\$ 7,569	\$ 300	\$ 2,660	\$ 18,797	\$ 954	\$ 954	\$ 48,636	\$ 219	\$ 319	\$ 538

CHEROKEE NATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED, SEPTEMBER 30, 2005
(Dollars in Thousands)

	Special Revenue Funds													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	Title VI	EDTA	Other Grants	Tribal Judgment Funds	Tribal Trusts	Total	Sequoyah Endowment	Gammon Education Trust		Total
Revenues:																		
Intergovernmental	\$ 10,896	\$ 6,087	\$ 6,647	\$ 5,792	\$ 7,089	\$ 4,764	\$ 6,061	\$ 9,461	\$ -	\$ -	\$ 14,324	\$ -	\$ -	\$ 71,121	\$ -	\$ -	\$ -	\$ 71,121
Interest	73	213	3	131	-	6	5	181	1,376	-	19	515	23	2,545	5	8	13	2,558
Other	512	-	-	-	47	-	1,698	77	1,353	-	1,640	8,329	186	13,842	-	-	-	13,842
Total revenues	11,481	6,300	6,650	5,923	7,136	4,770	7,764	9,719	2,729	-	15,983	8,844	209	87,508	5	8	13	87,521
Expenditures:																		
Current operating:																		
Tribal government	2,389	-	-	-	-	-	-	-	-	-	585	853	(24)	3,803	-	-	-	3,803
Health services	-	-	-	5,923	-	4,770	-	-	-	-	4,659	-	-	15,352	-	-	-	15,352
Education services	3,753	6,109	6,445	-	-	-	7,764	2,116	-	-	1,865	-	-	28,052	3	-	3	28,055
Human services	2,857	-	-	-	7,526	-	-	7,488	-	-	4,990	-	-	22,861	-	-	-	22,861
Community services	543	-	-	-	-	-	-	-	13,232	-	1,329	-	-	15,104	-	-	-	15,104
Other tribal services	2,013	-	-	-	-	-	-	-	-	-	2,733	-	-	4,746	-	-	-	4,746
Debt services:																		
Principal	-	-	-	-	-	-	-	-	1,253	-	-	-	-	1,253	-	-	-	1,253
Interest	-	-	-	-	-	-	-	-	1,438	-	-	-	2	1,440	-	-	-	1,440
Capital outlay	21	32	145	-	62	-	-	7	-	-	338	-	-	605	-	-	-	605
Total expenditures	11,576	6,141	6,590	5,923	7,588	4,770	7,764	9,611	15,923	-	16,499	855	(24)	93,216	3	-	3	93,219
Excess (deficiency) of revenues over expenditures	(95)	159	60	-	(452)	-	-	108	(13,194)	-	(516)	7,989	233	(5,708)	2	8	10	(5,698)
Other financing sources (uses):																		
Issuance of long-term debt	-	-	-	-	-	-	-	-	13,231	-	-	-	-	13,231	-	-	-	13,231
Transfers in	95	-	-	-	452	-	-	-	-	-	376	-	-	923	-	-	-	923
Transfers out	-	-	(60)	-	-	-	-	-	-	(2,075)	-	(4,410)	(35)	(6,580)	-	-	-	(6,580)
Total other financing sources (uses)	95	-	(60)	-	452	-	-	-	13,231	(2,075)	376	(4,410)	(35)	7,574	-	-	-	7,574
Excess (deficiency) of revenues and other financing sources over expenditures		159	-	-	-	-	-	108	37	(2,075)	(140)	3,579	198	1,866	2	8	10	1,876
Fund balance, October 1, 2004		227	-	-	-	-	-	192	130	2,075	528	10,178	692	14,022	183	311	494	14,516
Fund balance, September 30, 2005	\$ -	\$ 386	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 300	\$ 167	\$ -	\$ 388	\$ 13,757	\$ 890	\$ 15,888	\$ 185	\$ 319	\$ 504	\$ 16,392

NONMAJOR ENTERPRISE FUNDS

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 upon determination of net income, financial position and capital maintenance. The enterprise funds of the Nation, all of which are nonmajor, 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 tribal members and to recover costs of operations.
- **Landfill Operations** – Utilized to account for the solid waste landfill operations of the Nation 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 through conventional lending sources. EDTA moved from the Special Revenue fund to Enterprise fund in FY2005.
- **Childhood Development Center** – Utilized to account for the activities of the Cherokee Nation Childhood Development Centers that provide childcare to low income families at a reduced or subsidized rate. The Nation intends to recover the majority of future costs of operating the Childhood Development Centers primarily through user charges. This fund changed fund type to Special Revenue in FY2006.
- **Other Enterprises** – Utilized to account for various other small proprietary programs operated by the Nation such as Enterprise Management, 202 HUD Housing Management, Indian Health Services Personnel Service Agreement, Home Maintenance and Cherokee Navigation.

CHEROKEE NATION

COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS

SEPTEMBER 30, 2005

(Dollars in Thousands)

	<u>Tsa-La-Gi Apartments</u>	<u>Landfill Operations</u>	<u>EDTA</u>	<u>Childhood Development Centers</u>	<u>Other Enterprises</u>	<u>Total</u>
ASSETS						
Current assets:						
Cash and cash equivalents	\$ 86	\$ 458	\$ 1,292	\$ 132	\$ -	\$ 1,968
Investments	11	-	-	-	-	11
Accounts receivable, net	-	355	-	1	-	356
Due from other funds	-	-	-	-	14	14
Notes receivable, current	-	-	150	-	-	150
Other current assets	2	-	-	-	-	2
Total current assets	99	813	1,442	133	14	2,501
Noncurrent assets:						
Restricted cash and cash equivalents	113	1,691	-	-	-	1,804
Long-term notes receivable	-	-	1,252	-	-	1,252
Capital assets, net	751	6,100	-	-	-	6,851
Total noncurrent assets	864	7,791	1,252	-	-	9,907
Total assets	963	8,604	2,694	133	14	12,408
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	33	13	-	-	-	46
Current portion of long-term debt	81	381	23	-	-	485
Due to other funds	50	2,715	-	56	-	2,821
Other current liabilities	16	-	-	-	-	16
Total current liabilities	180	3,109	23	56	-	3,368
Noncurrent liabilities:						
Long-term unearned revenue	-	300	-	-	-	300
Long-term debt	575	295	1,075	-	-	1,945
Other liabilities	-	1,604	-	-	-	1,604
Total noncurrent liabilities	575	2,199	1,075	-	-	3,849
Total liabilities	755	5,308	1,098	56	-	7,217
NET ASSETS						
Invested in capital assets, net of related debt	95	5,424	-	-	-	5,519
Unrestricted net assets/(deficit)	113	(2,128)	1,596	77	14	(328)
Total net assets	\$ 208	\$ 3,296	\$ 1,596	\$ 77	\$ 14	\$ 5,191

CHEROKEE NATION

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(Dollars in Thousands)**

	Business-type Activities- Enterprise Funds					Total
	Tsa-La-Gi Apartments	Landfill Operations	EDTA	Childhood Development Centers	Other Enterprises	
Operating revenues:						
Property rentals	\$ 468	\$ -	\$ -	\$ -	\$ -	\$ 468
Charges for services and goods	-	1,669	-	765	-	2,434
Other	7	268	14	1	-	290
Total operating revenues	475	1,937	14	766	-	3,192
Operating expenses:						
Salaries and wages	39	522	-	747	-	1,308
Other services and charges	200	785	118	250	15	1,368
Materials and supplies	13	24	-	33	-	70
Depreciation and amortization	52	874	-	-	-	926
Total operating expenses	304	2,205	118	1,030	15	3,672
Operating income (loss)	171	(268)	(104)	(264)	(15)	(480)
Nonoperating revenues (expenses):						
Interest income	3	43	104	6	-	156
Interest expense	(48)	(35)	(9)	-	-	(92)
Net nonoperating revenues (expenses)	(45)	8	95	6	-	64
Income (loss) before transfers	126	(260)	(9)	(258)	(15)	(416)
Transfers in	-	-	1,605	296	-	1,901
Change in net assets	126	(260)	1,596	38	(15)	1,485
Total net assets - beginning	82	3,556	-	39	29	3,706
Total net assets - ending	\$ 208	\$ 3,296	\$ 1,596	\$ 77	\$ 14	\$ 5,191

CHEROKEE NATION

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2005 (Dollars in Thousands)

	Business-type Activities- Enterprise Funds					Total
	Tsa-La-Gi Apartments	Landfill Operations	EDTA	Childhood Development Centers	Other Enterprises	
Cash flows from operating activities:						
Receipts from customers	\$ 468	\$ 1,969	\$ -	\$ 765	\$ -	\$ 3,202
Payments to suppliers	(212)	(894)	(118)	(189)	(16)	(1,429)
Payments to employees	(39)	(522)	-	(747)	-	(1,308)
Internal activity, net - payments (to)/from other funds	-	1,845	-	(377)	(11)	1,457
Other receipts	7	268	58	1	17	351
Net cash provided/(used) by operating activities	224	2,666	(60)	(547)	(10)	2,273
Cash flows from noncapital financing activities						
Operating subsidies and transfers (to)/from other funds			518	296	-	814
Cash balance upon transfer to enterprise fund			629	-	-	629
Net cash provided by noncapital financing activities			1,147	296	-	1,443
Cash flows from capital and related financing activities						
Purchases of capital assets	(93)	(2,079)	-	-	-	(2,172)
Proceeds from capital debt	-	436	152	-	-	588
Principal paid on capital debt	(76)	(245)	(42)	-	-	(363)
Interest paid on capital debt	(48)	(35)	(9)	-	-	(92)
Net cash (used) by capital and related financing activities	(217)	(1,923)	101	-	-	(2,039)
Cash flows from investing activities						
Interest and dividends received	3	43	104	6	-	156
Net cash provided by investing activities	3	43	104	6	-	156
Net increase (decrease) in cash and cash equivalents	10	786	1,292	(245)	(10)	1,833
Cash and cash equivalents, October 1, 2004	189	1,363	-	377	10	1,939
Cash and cash equivalents, September 30, 2005	\$ 199	\$ 2,149	\$ 1,292	\$ 132	\$ -	\$ 3,772
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ 171	\$ (268)	\$ (104)	\$ (264)	\$ (15)	\$ (480)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	52	874	-	-	-	926
Change in assets and liabilities:						
Receivables and due from (to) other funds	-	(247)	44	109	6	(88)
Liabilities and other payables	1	2,307	-	(392)	(1)	1,915
Net cash provided by operating activities	\$ 224	\$ 2,666	\$ (60)	\$ (547)	\$ (10)	\$ 2,273

INTERNAL SERVICE FUNDS

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.
- **Force Accounts** is used to acquire and maintain equipment and supplies used 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, such as accounting, human resources and acquisition management, to other funds of the Nation.
- **Construction** is used to account for the cost to manage construction of buildings for use by other funds of the Nation.

CHEROKEE NATION

COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS

SEPTEMBER 30, 2005

(Dollars in Thousands)

	Internal Leases	Force Accounts	Fringe Pool	Indirect Cost Pool	Construction	Total
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ 2	\$ 368	\$ 8	\$ -	\$ 378
Accounts receivable, net	-	-	3	215	31	249
Due from other funds	-	-	1,194	636	-	1,830
Due from component units	-	-	-	-	42	42
Inventories	-	-	-	118	-	118
Other current assets	50	-	-	122	-	172
Total current assets	50	2	1,565	1,099	73	2,789
Noncurrent assets:						
Restricted cash & cash equivalents	1,000	25	-	-	-	1,025
Capital assets, net	10,209	442	-	1,636	-	12,287
Total noncurrent assets	11,209	467	-	1,636	-	13,312
Total assets	11,259	469	1,565	2,735	73	16,101
LIABILITIES						
Current liabilities:						
Accounts payable and accrued liabilities	-	-	3,444	579	-	4,023
Current portion of long-term debt	459	-	-	-	-	459
Current portion of capital leases	10	81	-	-	-	91
Due to other funds	822	105	-	-	518	1,445
Compensated absences	-	-	3,607	-	-	3,607
Other current liabilities	-	-	907	-	-	907
Total current liabilities	1,291	186	7,958	579	518	10,532
Noncurrent liabilities:						
Long-term debt	3,534	-	-	-	-	3,534
Capital leases payable	34	314	-	-	-	348
Total noncurrent liabilities	3,568	314	-	-	-	3,882
Total liabilities	4,859	500	7,958	579	518	14,414
NET ASSETS						
Invested in capital assets, net of related debt	6,172	47	-	1,636	-	7,855
Restricted	1,000	-	-	-	-	1,000
Unrestricted net assets/(deficit)	(772)	(78)	(6,393)	520	(445)	(7,168)
Total net assets/(deficit)	\$ 6,400	\$ (31)	\$ (6,393)	\$ 2,156	\$ (445)	\$ 1,687

CHEROKEE NATION

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(Dollars in Thousands)**

	Internal Leases	Force Accounts	Fringe Pool	Indirect Cost Pool	Construction	Total
Operating revenues:						
Property rentals	\$ 4	\$ -	\$ -	\$ -	\$ -	\$ 4
Charges for services and goods	2,288	47	29,345	21,426	235	53,341
Other	2	2	-	26	292	322
Total operating revenues	<u>2,294</u>	<u>49</u>	<u>29,345</u>	<u>21,452</u>	<u>527</u>	<u>53,667</u>
Operating expenses:						
Cost of sales	-	-	-	4	-	4
Salaries and wages	1,154	-	31,775	11,152	647	44,728
Other services and charges	857	29	12	8,607	253	9,758
Materials and supplies	80	23	-	736	25	864
Depreciation and amortization	386	138	-	725	-	1,249
Total operating expenses	<u>2,477</u>	<u>190</u>	<u>31,787</u>	<u>21,224</u>	<u>925</u>	<u>56,603</u>
Operating income (loss)	<u>(183)</u>	<u>(141)</u>	<u>(2,442)</u>	<u>228</u>	<u>(398)</u>	<u>(2,936)</u>
Nonoperating revenues (expenses):						
Interest income	9	1	-	-	-	10
Interest expense	(159)	(20)	-	-	-	(179)
Gain/(loss) on sale of capital assets	(287)	11	-	2	-	(274)
Net nonoperating revenues (expenses)	<u>(437)</u>	<u>(8)</u>	<u>-</u>	<u>2</u>	<u>-</u>	<u>(443)</u>
Income (loss) before transfers	<u>(620)</u>	<u>(149)</u>	<u>(2,442)</u>	<u>230</u>	<u>(398)</u>	<u>(3,379)</u>
Transfers in	-	-	-	60	1,036	1,096
Transfers out	-	-	-	-	(532)	(532)
Change in net assets	<u>(620)</u>	<u>(149)</u>	<u>(2,442)</u>	<u>290</u>	<u>106</u>	<u>(2,815)</u>
Total net assets/(deficit) - beginning	<u>7,020</u>	<u>118</u>	<u>(3,951)</u>	<u>1,866</u>	<u>(551)</u>	<u>4,502</u>
Total net assets/(deficit) - ending	<u>\$ 6,400</u>	<u>\$ (31)</u>	<u>\$ (6,393)</u>	<u>\$ 2,156</u>	<u>\$ (445)</u>	<u>\$ 1,687</u>

CHEROKEE NATION

**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(Dollars in Thousands)**

	<u>Internal Leases</u>	<u>Force Accounts</u>	<u>Fringe Pool</u>	<u>Indirect Cost Pool</u>	<u>Construction</u>	<u>Total</u>
Cash flows from operating activities:						
Receipts from customers	\$ 2,292	\$ 47	\$ 29,345	\$ 21,426	\$ 235	\$ 53,345
Payments to suppliers	(1,013)	(50)	-	(12,005)	(25)	(13,093)
Payments to employees	(1,154)	-	(31,775)	(11,152)	(647)	(44,728)
Internal activity, net - payments (to)/from other funds	(365)	107	(1,310)	1,703	(92)	43
Other receipts	-	-	825	-	25	850
Net cash provided/(used) by operating activities	<u>(240)</u>	<u>104</u>	<u>(2,915)</u>	<u>(28)</u>	<u>(504)</u>	<u>(3,583)</u>
Cash flows from noncapital financing activities						
Operating subsidies and transfers (to)/from other funds	-	-	-	60	504	564
Cash flows from capital and related financing activities						
Purchases of capital assets	(270)	(21)	-	(147)	-	(438)
Principal paid on capital debt	(452)	(75)	-	-	-	(527)
Interest paid on capital debt	(159)	(20)	-	-	-	(179)
Proceeds from sales of capital assets	-	11	-	2	-	13
Net cash provided/(used) by capital and related financing activities	<u>(881)</u>	<u>(105)</u>	<u>-</u>	<u>(145)</u>	<u>-</u>	<u>(1,131)</u>
Cash flows from investing activities						
Interest and dividends	9	1	-	-	-	10
Net increase (decrease) in cash and cash equivalents	(1,112)	-	(2,915)	(113)	-	(4,140)
Cash and cash equivalents, October 1, 2004	<u>\$2,112</u>	<u>27</u>	<u>3,283</u>	<u>121</u>	<u>-</u>	<u>5,543</u>
Cash and cash equivalents, September 30, 2005	<u>\$ 1,000</u>	<u>\$ 27</u>	<u>\$ 368</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 1,403</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (183)	\$ (141)	\$ (2,442)	\$ 228	\$ (398)	\$ (2,936)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	386	138	-	725	-	1,249
Change in assets and liabilities:						
Receivables and due from (to) other funds	-	2	(356)	1,672	(42)	1,276
Inventories	-	-	-	(14)	-	(14)
Other current assets	(50)	-	-	(34)	-	(84)
Accounts and other payables	(393)	105	(117)	(2,605)	(64)	(3,074)
Net cash provided by operating activities	<u>\$ (240)</u>	<u>\$ 104</u>	<u>\$ (2,915)</u>	<u>\$ (28)</u>	<u>\$ (504)</u>	<u>\$ (3,583)</u>

BUDGETARY INFORMATION

CHEROKEE NATION

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
BUDGET AND ACTUAL (GAAP BASIS) - ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2005
(Dollars in Thousands)**

	Budgeted Amounts		Actual	Variance with Final Budget over/(under)
	Original	Final		
Operating revenues:				
Property rentals	\$ -	\$ -	\$ 468	\$ 468
Charges for services and goods	2,447	2,394	2,434	40
Other	40	790	290	(500)
Total operating revenues	<u>2,487</u>	<u>3,184</u>	<u>3,192</u>	<u>8</u>
Operating expenses:				
Salaries and wages	1,708	1,644	1,308	(336)
Other services and charges	1,011	2,477	1,368	(1,109)
Materials and supplies	164	214	70	(144)
Depreciation and amortization	569	569	926	357
Total operating expenses	<u>3,452</u>	<u>4,904</u>	<u>3,672</u>	<u>(1,232)</u>
Operating income (loss)	<u>(965)</u>	<u>(1,720)</u>	<u>(480)</u>	<u>1,240</u>
Nonoperating revenues(expenses):				
Interest income	23	23	156	133
Interest expense	(81)	(81)	(92)	(11)
Net nonoperating revenue (expenses)	<u>(58)</u>	<u>(58)</u>	<u>64</u>	<u>122</u>
Income (loss) before transfers	(1,023)	(1,778)	(416)	1,362
Transfers in	<u>1,232</u>	<u>1,987</u>	<u>1,901</u>	<u>(86)</u>
Changes in net assets	209	209	1,485	1,276
Total net assets - beginning	3,706	3,706	3,706	-
Total net assets - ending	<u>\$ 3,915</u>	<u>\$ 3,915</u>	<u>5,191</u>	<u>\$ 1,276</u>
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(33)	
Net assets of Enterprise Funds			<u>\$ 5,158</u>	

STATISTICAL SECTION

CHEROKEE NATION
COMPREHENSIVE ANNUAL FINANCIAL REPORT

CHEROKEE NATION

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

Fiscal Year	Charges for Services	Operating				Unrestricted				Dividends from Components		Indirect Cost Settlement		Equity Interest in Joint Venture		Total
		Contributions	Fuels Tax	Motor Vehicle Tax	Other Tax Revenues	Grants & Contributions	Grants & Contributions	Interest	Interest	Settlement	Settlement	Miscellaneous	Miscellaneous			
2005	\$ 5,193	\$ 104,382	\$ 8,094	\$ 6,382	\$ 3,819	\$ 62,015	\$ 3,063	\$ 17,919	\$ -	\$ 898	\$ 184	\$ 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				
2003	4,366	113,394	7,468	4,961	2,973	66,249	1,624	8,725	646	1,144	-	211,550				
2002	4,548	103,642	7,294	3,342	2,445	58,236	1,799	4,050	254	634	-	186,244				
2001	4,289	120,105	6,895	-	2,062	-	3,282	4,300	4,377	5,081	-	150,391				
2000	4,125	91,174	7,118	-	1,940	-	2,611	4,100	-	4,929	-	115,997				
1999	4,681	86,360	6,932	-	1,772	-	1,818	2,410	-	4,468	-	108,441				
1998	4,928	84,722	6,230	-	1,598	-	1,202	1,865	-	7,306	-	107,851				
1997	4,683	82,597	5,084	-	1,662	-	1,049	2,800	-	3,544	-	101,419				
1996	3,703	77,011	-	-	1,558	-	598	2,440	-	2,213	-	87,523				

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.

2002 through 2005 revenues are not comparable to 2001 and prior years due to the adoption of GASB 34.

CHEROKEE NATION

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

Years	Tribal Government	Health Services	Education Services	Human Services	Community Services	Other Tribal Services	Interest on Long Term Debt	Cherokee			Ranch Operations	EDTA *	Childhood Development Center	Other Enterprises	Total
								Tsa-La-Gi Apartments	Trails Golf Club	Landfill Operations					
2005	\$ 17,023	\$ 79,344	\$ 33,429	\$ 24,824	\$ 35,060	\$ 10,623	\$ 1,651	\$ -	\$ 2,252	\$ -	\$ 1,115	\$ 1,048	\$ 15	\$ 206,736	
2004	13,627	74,995	32,901	24,160	35,163	11,193	970	39	1,917	6	-	1,235	-	196,562	
2003	12,075	67,356	32,423	24,671	51,252	8,750	689	192	1,982	52	-	1,358	1	201,160	
2002	9,373	62,235	29,120	25,203	45,478	5,431	235	170	1,459	169	-	1,091	3	180,385	
2001	15,960	45,889	8,131	25,001	-	53,134	299	153	795	199	-	884	2	150,854	
2000	10,334	41,492	7,668	18,600	-	35,290	299	187	887	161	-	-	198	115,463	
1999	9,147	38,207	8,367	17,154	-	35,433	339	204	1,029	157	-	-	262	110,657	
1998	6,691	37,837	7,496	21,591	-	30,934	384	210	916	167	-	-	346	106,930	
1997	8,603	31,263	7,798	18,524	-	30,615	401	107	910	180	-	-	315	99,074	
1996	5,898	26,422	6,906	16,121	-	34,496	325	-	937	193	-	-	1,023	92,593	

2002 through 2005 expenses are not comparable to 2001 and prior years due to the adoption of GASB 34.

* Includes prior year fund balance adjustment of \$988 due to change in fund type from Special Revenue to Enterprise.

CHEROKEE NATION

POPULATION BY COUNTY

	Indian Population	Total Population	Percent of Total
Counties in Cherokee Nation:			
Adair	8,938	21,038	42%
Cherokee	13,787	42,521	32%
Craig	2,439	14,950	16%
Delaware	8,273	37,077	22%
Mayes	7,330	38,369	19%
Nowata	1,750	10,569	17%
Rogers	8,533	70,641	12%
Sequoyah	7,654	38,972	20%
Washington	4,214	48,996	9%
Counties Partially in Cherokee Nation:			
McIntosh	3,152	19,456	16%
Muskogee	10,331	69,451	15%
Ottawa	5,488	33,194	17%
Tulsa	29,316	563,299	5%
Wagoner	5,393	57,491	9%
Totals	<u>116,598</u>	<u>1,066,024</u>	<u>11%</u>

Source: U.S. Census Bureau: 2000

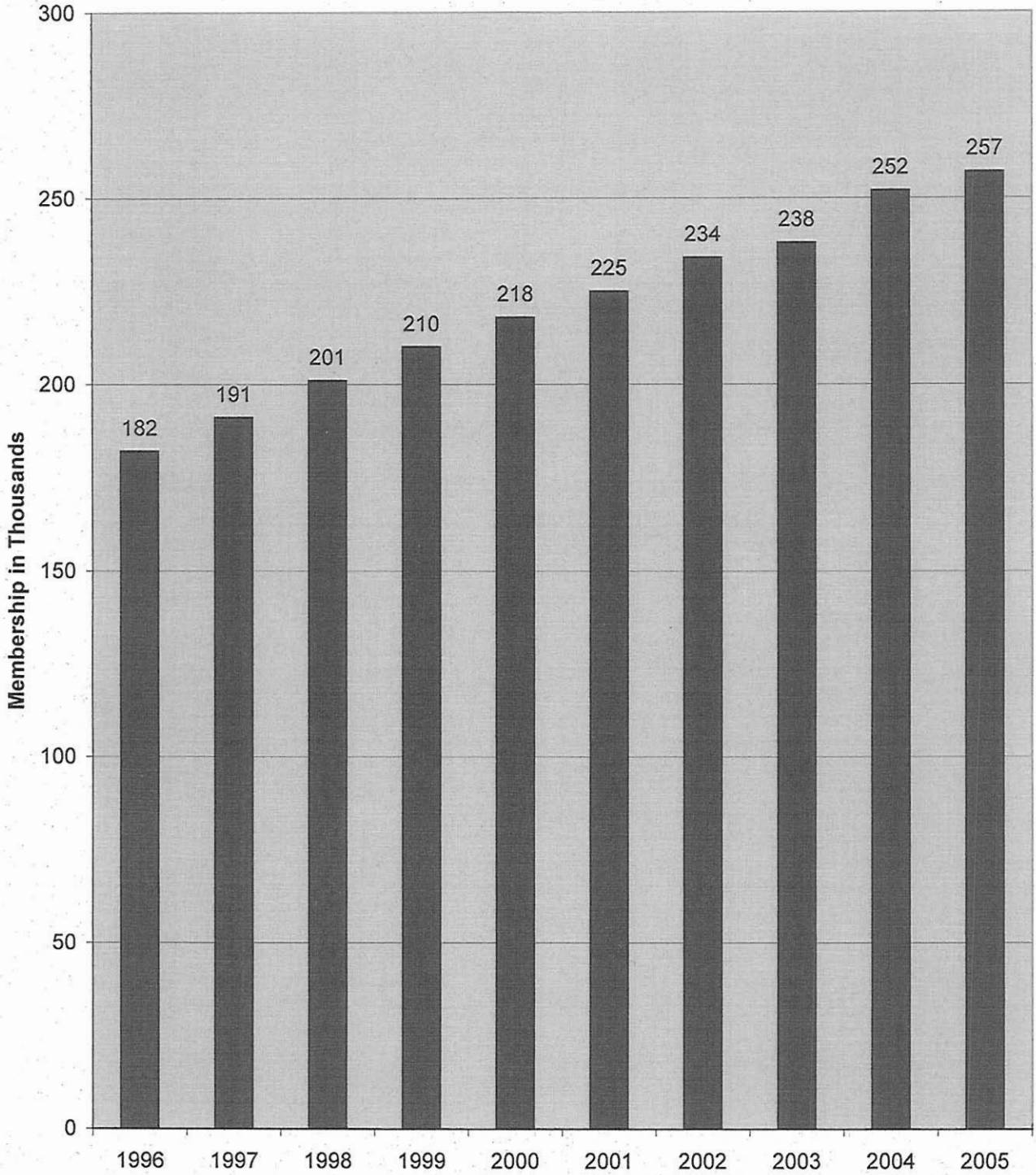
CHEROKEE NATION

TRIBAL LAND BASE (ACRES) BY COUNTY AS OF SEPTEMBER 30, 2005

County	Tribal Land	Government Land	Restricted Individual	Total Acres
<u>Cherokee Nation:</u>				
Oklahoma:				
Adair	12,939	19	10,408	23,366
Cherokee	1,128	324	9,513	10,965
Craig	273	-	1,843	2,116
Delaware	24,784	10	6,503	31,297
McIntosh	-	-	596	596
Mayes	356	10	5,354	5,720
Muskogee	95	-	2,342	2,437
Nowata	10	-	610	620
Ottawa	-	-	79	79
Rogers	16	-	801	817
Sequoyah	1,632	44	5,850	7,526
Tulsa	-	-	204	204
Wagoner	-	-	225	225
Washington	-	-	1,784	1,784
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	629	-	-	629
Dallas	5	-	-	5
Total	<u>60,952</u>	<u>407</u>	<u>46,112</u>	<u>107,471</u>

Source: Cherokee Nation Land Department

**CHEROKEE NATION
Tribal Membership Growth**



Source: Tribal Registration Department