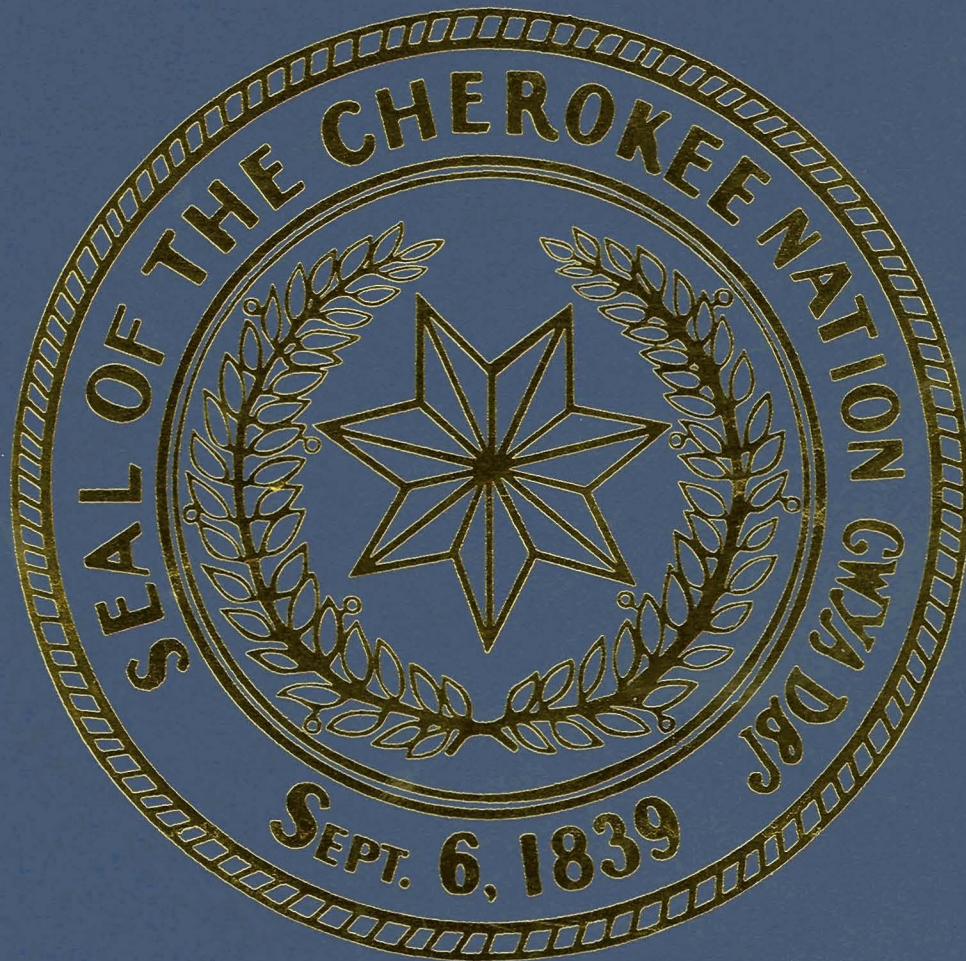


CHEROKEE NATION

GWY DBC



TAHLEQUAH, OKLAHOMA

COMPREHENSIVE ANNUAL
FINANCIAL REPORT

FISCAL YEAR ENDED
SEPTEMBER 30, 2004

CHEROKEE NATION

Tahlequah, Oklahoma



COMPREHENSIVE ANNUAL FINANCIAL REPORT

**FISCAL YEAR ENDED
SEPTEMBER 30, 2004**

**Prepared by
Financial Resource Group**

CHEROKEE NATION
Comprehensive Annual Financial Report
For the Year Ended September 30, 2004

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INTRODUCTORY SECTION



CHEROKEE NATION

P.O. Box 948
Tahlequah, OK 74465-0948
918-456-0671

Chad "Corntassel" Smith
ᎠᎵᎠᎵᎠ
Principal Chief

Joe Grayson
ᎠᎵᎠᎵᎠ
Deputy Principal Chief

April 15, 2005

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, 2004. 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, 2004.

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 "Corntassle" 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. His stated goals are to improve services, increase cultural awareness and increase the resources for the betterment of the entire Cherokee Nation. In August 2003, he was reelected as Principal Chief.

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/Controller 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 of Oklahoma (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

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

The following organizations do 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 (Enterprise Funds)
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, 2004, are included in a separately issued Single Audit Report.

Economic Outlook

Since fiscal year 2002, the Cherokee Nation primary government has increased its total assets by approximately \$115,000,000 or 85%. 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, 2003. This was the third 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 2004 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,



Callie Catcher
Controller

Cherokee Nation Tribal Officials 2004

EXECUTIVE BRANCH

Chadwick "Corntassle" Smith

Joe Grayson, Jr.

Principal Chief

Deputy Principal Chief

LEGISLATIVE BRANCH

Bill John Baker
District 1
Cherokee

Audra Smoke-Connor
District 1
Cherokee

S. Joe Crittenden
District 2
Trail of Tears

Jackie Bob Martin
District 2
Trail of Tears

David W. Thornton
District 3
Sequoyah

Phyllis Yargee
District 3
Sequoyah

Don Garvin
District 4
Three Rivers

Linda Hughes-O'Leary
District 5
Delaware

Melvina Shotpouch
District 5
Delaware

Meredith A. Frailey
District 6
Mayes

Johnny Keener
District 6
Mayes

Cara Cowan
District 7
Will Rogers

Buel Anglen
District 8
Oologah

William G. "Bill" Johnson
District 8
Oologah

Charles "Chuck" Hoskin
District 9
Craig

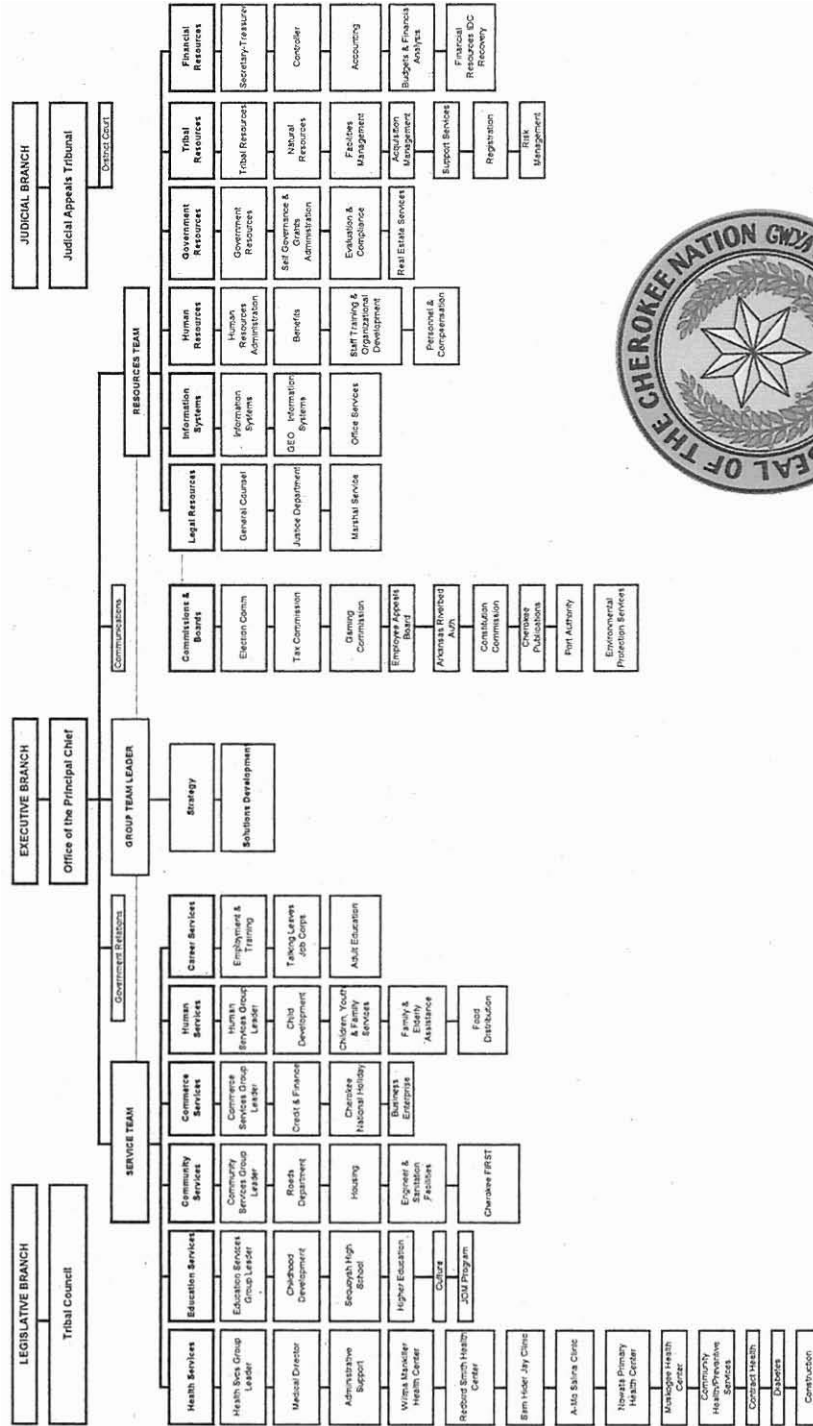
JUDICIAL BRANCH

Darrell R. Dowty
Justice

Stacy Leeds
Justice

Darell R. Matlock
Chief Justice

CHEROKEE NATION ORGANIZATIONAL STRUCTURE Fiscal Year 2004



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, 2003

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.



President

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, 2004, 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 these financial statements based on our audit. We did not audit the financial statements of the Housing Authority of the Cherokee Nation of Oklahoma ("HACN"), Cherokee Nation Enterprises, Inc. ("CNE"), Cherokee Nation Home Health Services, Inc. ("CNHHS") or Cherokee Nation Industries, Inc., CND, LLC, and Cherokee Medical Services, LLC (collectively "CNI"), which are all component units of the Nation. The financial statements for the HACN, CNE, CNHHS and CNI 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 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Nation as of September 30, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the general fund for the year ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis on pages 11 through 21 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no 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 combining financial statements and 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. These combining financial statements and schedule are the responsibility of management of the Nation. Such additional information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The other information listed in the table of contents under Introductory Section and Statistical Section is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Nation. Such additional information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly we express no opinion on this other information.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2005 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.

Deloitte & Touche LLP

April 14, 2005

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, 2004. 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 2004 by \$119 million (net assets). Of this total amount, \$65 million are unrestricted net assets that may be used to meet the government's ongoing obligations.
- The Nation's overall liabilities increased by approximately \$26 million to \$131 million.
- The net assets increased by \$15 million, which is largely attributable to the IHS Indirect Cost Settlement, an increase in dividends from component units, and increases in revenues from motor vehicle 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 an 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, the Cherokee Trails Golf Club, Tsa-La-Gi Apartments, Ranch Operations, 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:

- The 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 other 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 financials 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 24 and 26 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, and one blended component unit, Economic Development Trust Authority (EDTA), to account for other governmental activity. The governmental fund statements can be found on pages 24 and 25 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 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 28 - 30 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 six nonmajor enterprise funds for presentation purposes. The funds are the Nation's Landfill Operations, Tsa-La-Gi Apartments, Cherokee Trails Golf Club, Ranch Operations, Child Development Centers, and Other Enterprises. During 2004, the Nation discontinued the ranch operations and transferred operations of the Cherokee Trails Golf Club to CNE. The nonmajor enterprise combining financial statements can be found on pages 70 - 72 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 73 - 75 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 they have independent qualities as well, similar to private-sector business. The government-wide financial statements present information for the component units in a single column. The 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 31 and 32 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 33 - 67 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		2004	2003	Increase/ (Decrease)	Percentage Increase/ (Decrease)
General Fund					
Revenues and transfers in	(1)	\$ 32,227	\$ 26,091	\$ 6,136	23.5 %
Expenditures and transfers out	(2)	23,387	18,200	5,187	28.5 %
Self Governance DOI Roads					
Revenues and transfers in	(3)	5,274	5,603	(329)	(5.9)%
Expenditures and transfers out	(3)	5,398	5,510	(112)	(2.0)%
Self Governance DHHS					
Revenues and transfers in	(4)	58,112	55,542	2,570	4.6 %
Expenditures and transfers out	(4)	58,726	54,760	3,966	7.2 %
Housing and Urban Development					
Revenues and transfers in	(5)	27,705	43,372	(15,667)	(36.1)%
Expenditures and transfers out	(5)	27,705	43,499	(15,794)	(36.3)%

- (1) Revenue increases for General Fund are primarily the result of increased dividends from Cherokee Nation Enterprises and increases in tax and license revenues.
- (2) General Fund expenditures and transfers out were more than FY2003, primarily due to 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, as a result of more miles of road being completed in FY2003.

- (4) Self Governance DHHS revenue was more in FY 2004 primarily due to a million dollar increase 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 FY2003 as a result of decreased sub-grants to Housing Authority of the Cherokee Nation ("HACN"). 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 of the Nation's primary government at fiscal year ending September 30, 2004 were \$250 million. Of the \$250 million, \$40 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 primary government at fiscal year end were \$131 million. Of this amount, approximately \$25 million relates 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 primary government exceeded liabilities at fiscal year ended September 30, 2004 by \$119 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	
	2004	2003	2004	2003	2004	2003
Current and other assets	\$ 209,107	\$ 170,101	\$ 837	\$ 978	\$ 209,944	\$ 171,079
Capital assets	34,755	31,694	5,605	6,314	40,360	38,008
Total assets	<u>243,862</u>	<u>201,795</u>	<u>6,442</u>	<u>7,292</u>	<u>250,304</u>	<u>209,087</u>
Long-term debt outstanding	25,854	16,284	1,217	1,475	27,071	17,759
Other liabilities	102,348	85,991	1,522	1,350	103,870	87,341
Total liabilities	<u>128,202</u>	<u>102,275</u>	<u>2,739</u>	<u>2,825</u>	<u>130,941</u>	<u>105,100</u>
Net assets invested in capital assets, net of related debt	29,403	25,655	4,388	4,839	33,791	30,494
Restricted	20,691	20,421	-	-	20,691	20,421
Unrestricted	<u>65,566</u>	<u>53,444</u>	<u>(685)</u>	<u>(372)</u>	<u>64,881</u>	<u>53,072</u>
Total net assets	<u>\$ 115,660</u>	<u>\$ 99,520</u>	<u>\$ 3,703</u>	<u>\$ 4,467</u>	<u>\$ 119,363</u>	<u>\$ 103,987</u>

\$34 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, \$65 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, 2004, 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 \$15 million or 15% during the course of the year. Total revenues for fiscal year ended September 30, 2004 were \$212 million. Total expenses of the Nation were \$197 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 \$16 million resulting in an increase in net assets. Net revenues for business-type activities were exceeded by expenses in the amount of \$614 thousand. The changes in net assets during 2004 are as follows (in thousands):

	Cherokee Nation's Changes in Net Assets					
	Governmental Activities		Business-Type Activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues:						
Program revenues:						
Charges for services	\$ 1,237	\$ 405	\$ 3,045	\$ 3,961	\$ 4,282	\$ 4,366
Operating grants and contributions	100,209	113,394	-	-	100,209	113,394
General revenues:						
Motor fuel tax	7,576	7,468	-	-	7,576	7,468
Motor vehicle tax	5,929	4,961	-	-	5,929	4,961
Tobacco tax and fees	2,142	2,052	-	-	2,142	2,052
Gaming tax and licenses	262	611	-	-	262	611
Sales tax	249	310	-	-	249	310
Unrestricted investment earnings	1,588	1,563	19	61	1,607	1,624
Indirect Cost Settlement	11,634	646	-	-	11,634	646
Dividends from Component Units	11,717	8,725	-	-	11,717	8,725
Arkansas River Drybed Lands Settlement	-	20,000	-	-	-	20,000
Grants and contributions not restricted to specific programs	65,223	66,249	-	-	65,223	66,249
Miscellaneous	1,232	1,144	-	-	1,232	1,144
Gain/(loss) on disposals	1	-	(125)	32	(124)	32
Total revenues	<u>208,999</u>	<u>227,528</u>	<u>2,939</u>	<u>4,054</u>	<u>211,938</u>	<u>231,582</u>
Expenses:						
Tribal government	13,627	12,075	-	-	13,627	12,075
Health Services	74,995	67,356	-	-	74,995	67,356
Education Services	32,901	32,423	-	-	32,901	32,423
Human Services	24,160	24,671	-	-	24,160	24,671
Community Services	35,163	51,252	-	-	35,163	51,252
Other Tribal Services	11,193	8,750	-	-	11,193	8,750
Interest on long-term debt	970	689	-	-	970	689
Total governmental expenses	<u>193,009</u>	<u>197,216</u>	<u>-</u>	<u>-</u>	<u>193,009</u>	<u>197,216</u>
Tsa-La-Gi Village Apartments	-	-	356	359	356	359
Cherokee Trails Golf Club	-	-	39	192	39	192
Landfill Operations	-	-	1,917	1,982	1,917	1,982
Ranch Operations	-	-	6	52	6	52
Childhood Development Centers	-	-	1,235	1,358	1,235	1,358
Other Enterprises	-	-	-	1	-	1
Total business-type expenses	<u>-</u>	<u>-</u>	<u>3,553</u>	<u>3,944</u>	<u>3,553</u>	<u>3,944</u>
Increase in net assets before transfers	15,990	30,312	(614)	110	15,376	30,422
Transfers	150	(122)	(150)	122	-	-
Change in net assets	<u>16,140</u>	<u>30,190</u>	<u>(764)</u>	<u>232</u>	<u>15,376</u>	<u>30,422</u>
Net assets—Beginning of year	99,520	69,330	4,467	4,235	103,987	73,565
Net assets—End 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>

As indicated earlier in this report, the increase in net assets in 2004 is largely attributable to the IHS Indirect Cost Settlement, dividends from component units, 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 2004 were \$40 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):

Cherokee Nation's Capital Assets (net of depreciation) September 30, 2004

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land	\$ 8,998	\$ 105	\$ 9,103
Buildings and improvements	18,522	4,918	23,440
Equipment	<u>7,235</u>	<u>582</u>	<u>7,817</u>
Total capital assets	<u>\$ 34,755</u>	<u>\$ 5,605</u>	<u>\$ 40,360</u>

Additional information on the Nation's capital assets can be found in Note 8 on pages 52 - 54 of this report.

The Nation's long-term debt at the end of fiscal year 2004 was approximately \$27 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, 2004 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Notes payable	\$ 25,331	\$ 1,217	\$ 26,548
Capital leases payable	<u>523</u>	<u>0</u>	<u>523</u>
Total long-term debt	<u>\$ 25,854</u>	<u>\$ 1,217</u>	<u>\$ 27,071</u>

The Nation, as a tribal government, has the ability to incur debt, similar to a state and local government. The Nation has entered into an agreement for \$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 Tribal members. As of September 30, 2004, borrowings under this credit facility totaled approximately \$19,078,000.

Additional information on the Nation's long-term debt can be found in Note 9 on pages 55 - 59 of this report.

SIGNIFICANT BUDGET VARIATIONS

The Nation's significant General Fund budget variations in 2004 were as follows (in thousands):

	Original Budget	Final Budget	Variance Increase/ (Decrease)	Percentage Increase/ (Decrease)	Actual	Variance Increase/ (Decrease)	Percentage Increase/ (Decrease)
Revenues:							
Dividends from component units	7,500	10,250	2,750 (1)	37 %	11,717 (2)	1,467	14 %
Expenditures:							
Tribal Government	9,977	11,461	1,484 (3)	15 %	7,509 (4)	(3,952)	(34)%
Member Services	16,129	21,437	5,308 (5)	33 %	13,766 (6)	(7,671)	(36)%
Other sources/(uses):							
Transfers, net	(6,516)	(10,514)	(3,998) (7)	61 %	655 (8)	11,169	(106)%

- (1) Increases in dividends from component units in the Final Budget are a result of increased profits at Cherokee Nation Enterprises (CNE).
- (2) Actual dividends from component units were significantly higher than budget and the prior year due to increased profits at CNE.
- (3) 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.
- (4) Expenditures for Tribal Government were approximately \$4 million less than budget, primarily due to decreases in contract services and operating expenditures.
- (5) 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.
- (6) Expenditures for Member Services were less than budget, primarily related to decreases in capital expenditures and contract services.
- (7) Increases in budgeted transfers, net were the result of increased revenues available.
- (8) Net transfers were \$11 million less 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 still under construction in Nowata and Muskogee. The Nation will also begin a teleradiology program for the health clinics. The Education Services group will break ground 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 utilizing the HUD Title VI debt funding.

Budgeted expenditures and transfers for the Nation's General Fund for fiscal year 2005 total \$52 million, a decrease of \$10 million from the amounts budgeted for fiscal year 2004.

Cherokee Nation Enterprises ("CNE") continues its expansion of its gaming facilities located in Catoosa, Oklahoma. With the passage of the State-Tribal Gaming Act in November 2004, CNE will be operating enhanced gaming activities in FY2005.

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, 2004
 (Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and cash equivalents	\$ 62,641	\$ 451	\$ 63,092	\$ 23,878
Investments	48,870	11	48,881	11,758
Accounts receivable, net	47,611	235	47,846	13,220
Mortgages receivable, Title VI and partnerships, current	-	-	-	335
Due from other funds - Internal Balances	1,350	(1,350)	-	-
Due from primary government	-	-	-	-
Due from component units	500	-	500	-
Inventories	876	-	876	11,563
Prepaid expenses	-	-	-	296
Notes receivable	2,480	-	2,480	3,732
Deferred income taxes	-	-	-	1,148
Other current assets	194	2	196	2,416
Restricted cash, cash equivalents and investments	26,268	1,488	27,756	2,492
Long term notes receivable	18,169	-	18,169	-
Inventory of homes for sale	-	-	-	4,429
Long term mortgages receivable, Title VI and partnerships	-	-	-	20,076
Other assets	-	-	-	2,167
Investment in joint venture	148	-	148	-
Capital assets, non depreciable	8,998	105	9,103	51,641
Capital assets, depreciable, net	25,757	5,500	31,257	155,782
Total assets	243,862	6,442	250,304	306,568
Liabilities				
Outstanding checks in excess of bank balance	-	-	-	4,510
Accounts payable and accrued liabilities	18,999	81	19,080	21,839
Line of credit	-	-	-	8,375
Current portion of long-term debt	1,684	262	1,946	1,035
Current portion of capital leases	87	-	87	2,290
Due to primary government	-	-	-	500
Due to component units	1,635	-	1,635	-
Compensated absences	3,322	-	3,322	-
Other current liabilities	2,241	16	2,257	-
Deferred revenue	3,294	-	3,294	-
Deferred grant revenue	72,657	-	72,657	-
Long-term debt	23,647	955	24,602	34,079
Trust liabilities	-	-	-	11,492
Capital leases payable	436	-	436	221
Deferred income taxes	-	-	-	88
Other noncurrent liabilities	200	1,425	1,625	-
Minority interest	-	-	-	(104)
Total liabilities	128,202	2,739	130,941	85,039
Net Assets				
Invested in capital assets, net of related debt	29,403	4,388	33,791	195,071
Restricted for				
Motor vehicle tax	4,693	-	4,693	-
Permanent Funds - expendable	69	-	69	-
Permanent Funds - nonexpendable	425	-	425	-
Judgment funds - nonexpendable	2,506	-	2,506	-
Construction	2,112	-	2,112	-
Arkansas River Drybed Lands Settlement	570	-	570	-
Debt service	-	-	-	2,500
Program services	10,316	-	10,316	18,200
Unrestricted	65,566	(685)	64,881	-
Total net assets	\$ 115,660	\$ 3,703	\$ 119,363	\$ 221,529

CHEROKEE NATION

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(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	Governmental Activities	Business-type Activities	Component Units
Primary Government:							
Governmental activities:							
Tribal Government	\$ 13,627	\$ -	\$ 1,060	\$ -	\$ (12,567)	\$ -	\$ (12,567)
Health Services	74,995	-	25,195	-	(49,800)	-	(49,800)
Education Services	32,901	-	23,840	-	(9,061)	-	(9,061)
Human Services	24,160	-	18,701	-	(5,459)	-	(5,459)
Community Services	35,163	-	28,600	-	(6,563)	-	(6,563)
Other Tribal Services	11,193	1,237	2,813	-	(7,143)	-	(7,143)
Interest on long-term debt	970	-	-	-	(970)	-	(970)
Total governmental activities	193,009	1,237	100,209	-	(91,563)	-	(91,563)
Business-type activities:							
Tax-La-Gi Apartments	356	437	-	-	-	81	81
Cherokee Trails Golf Club	39	6	-	-	-	(33)	(33)
Landfill Operations	1,917	1,355	-	-	-	(562)	(562)
Ranch Operations	6	-	-	-	-	(6)	(6)
Childhood Development Centers	1,235	1,237	-	-	-	2	2
Other Enterprises	-	10	-	-	-	10	10
Total business-type activities	3,553	3,045	-	-	(508)	(508)	(508)
Total primary government	\$ 196,562	\$ 4,282	\$ 100,209	\$ -	(91,563)	(508)	(92,071)
Component Units:							
Housing Authority of the Cherokee Nation (HACN)	\$ 26,157	\$ 3,400	\$ 21,707	\$ -	-	-	(1,050)
Cherokee Nation Enterprises Inc. (CNE)	142,825	174,561	-	-	-	-	31,736
Cherokee Nation Industries Inc. (CNI)	83,053	84,789	-	-	-	-	1,736
Cherokee Nation Businesses, Inc. (CNEB)	129	-	-	-	-	-	(129)
Cherokee Nation Home Health Services, Inc. (CNHHS)	2,268	2,305	-	-	-	-	(63)
Total component units	\$ 254,532	\$ 265,055	\$ 21,707	\$ -	-	-	32,230
General Revenues:							
Motor fuel tax					7,576	-	-
Motor vehicle tax					5,929	-	-
Tobacco tax and fees					2,142	-	-
Gaming tax and licenses					262	-	-
Sales tax					249	-	-
Grants and contributions not restricted to specific programs					65,223	-	-
Unrestricted investment earnings					1,588	19	1,607
Indirect cost settlement, net					11,634	-	11,634
Dividends from component units					11,717	-	11,717
Miscellaneous revenue					1,232	-	1,232
Gain/(loss) on disposals					1	(125)	(124)
Transfers					150	(150)	-
Total general revenues and transfers					107,703	(256)	107,447
Change in net assets					16,140	(764)	15,376
Net assets, beginning					99,520	4,467	103,987
Net assets, ending					\$ 115,660	\$ 3,703	\$ 119,363
							\$ 221,529

See notes to basic financial statements

FUND FINANCIAL STATEMENTS

CHEROKEE NATION

BALANCE SHEET - GOVERNMENTAL FUNDS

SEPTEMBER 30, 2004

(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	\$ 14,883	\$ 2,219	\$ 11,657	\$ 3,227	\$ 27,249	\$ 59,235
Investments	652	18,455	90	25,565	4,108	48,870
Receivables, net	2,363	5,639	328	83	5,221	13,634
Due from other funds	8,223	-	-	-	247	8,470
Due from component units	500	-	-	-	-	500
Inventories	-	-	-	-	772	772
Notes receivable	-	-	-	-	1,625	1,625
Other current assets	18	-	-	-	88	106
Restricted cash and cash equivalents	23,606	-	-	-	525	24,131
Total assets	\$ 50,245	\$ 26,313	\$ 12,075	\$ 28,875	\$ 39,835	\$ 157,343

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable and accrued liabilities	\$ 3,601	\$ 30	\$ 3,254	\$ 170	\$ 1,616	\$ 8,671
Due to other funds	2,591	29	514	241	4,215	7,590
Due to component units	-	-	-	1,635	-	1,635
Other current liabilities	39	-	-	-	-	39
Deferred revenue	1	-	-	-	782	783
Deferred grant revenue	-	25,671	1,451	26,829	18,706	72,657
Total liabilities	6,232	25,730	5,219	28,875	25,319	91,375

FUND BALANCES:

Fund balance:						
Reserved by Legislative Act (Note 11):						
Motor fuel tax	18,331	-	-	-	-	18,331
Indirect cost settlement	4,947	-	-	-	-	4,947
Cash reserve	1,256	-	-	-	-	1,256
Sequoyah High School	4,060	-	-	-	-	4,060
Tribal judgements and trusts	-	-	-	-	7,486	7,486
Reserved by external sources:						
Grant programs	-	-	6,856	-	3,460	10,316
Motor vehicle tax	4,693	-	-	-	-	4,693
Trust principal	-	-	-	-	-	-
Permanent funds	-	-	-	-	494	494
Judgement funds	-	-	-	-	3,076	3,076
Unreserved (Note 3)	10,726	583	-	-	-	11,309
Total fund balances	44,013	583	6,856	-	14,516	65,968
Total liabilities and fund balances	\$ 50,245	\$ 26,313	\$ 12,075	\$ 28,875	\$ 39,835	

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.

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

33,069

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.

Liabilities that are not due and payable in the current period and therefore not reported in the funds.

(9,249)

Net assets of governmental activities

\$ 115,660

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, 2004
(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	\$ -	\$ 4,264	\$ 48,495	\$ 27,254	\$ 70,503	\$ 150,516
Property rentals	585	-	-	-	-	585
Motor fuel tax revenues	7,576	-	-	-	-	7,576
Tax and license revenues	9,234	-	-	-	-	9,234
Interest	569	1,008	333	199	1,371	3,480
Trust fund income	90	-	-	-	-	90
Indirect cost settlement	646	-	-	-	-	646
Dividends from component units	11,717	-	-	-	-	11,717
Other	481	2	9,284	252	9,897	19,916
Total revenues	<u>30,898</u>	<u>5,274</u>	<u>58,112</u>	<u>27,705</u>	<u>81,771</u>	<u>203,760</u>
Expenditures:						
Current operating:						
Tribal Government	7,509	-	452	1,690	3,994	13,645
Health Services	3,083	-	54,584	-	15,581	73,248
Education Services	3,394	-	-	897	27,867	32,158
Human Services	511	-	-	1,241	21,996	23,748
Community Services	3,288	4,750	3,443	22,989	10,016	44,486
Other tribal services	3,490	-	-	737	5,431	9,658
Debt services:						
Principal	350	-	-	-	922	1,272
Interest	36	-	-	-	761	797
Capital outlay	1,052	5	247	111	519	1,934
Total expenditures	<u>22,713</u>	<u>4,755</u>	<u>58,726</u>	<u>27,665</u>	<u>87,087</u>	<u>200,946</u>
Excess (deficiency) of revenues over expenditures	<u>8,185</u>	<u>519</u>	<u>(614)</u>	<u>40</u>	<u>(5,316)</u>	<u>2,814</u>
Other financing sources (uses):						
Proceeds of long term debt	-	-	-	-	10,189	10,189
Other proceeds	-	-	-	-	976	976
Transfers in	1,329	-	-	-	834	2,163
Transfers out	(674)	(643)	-	(40)	(686)	(2,043)
Total other financing sources (uses)	<u>655</u>	<u>(643)</u>	<u>-</u>	<u>(40)</u>	<u>11,313</u>	<u>11,285</u>
Net change in fund balances	<u>8,840</u>	<u>(124)</u>	<u>(614)</u>	<u>-</u>	<u>5,997</u>	<u>14,099</u>
Fund balance, October 1, 2003	<u>35,173</u>	<u>707</u>	<u>7,470</u>	<u>-</u>	<u>8,519</u>	<u>51,869</u>
Fund balance, September 30, 2004	<u>\$ 44,013</u>	<u>\$ 583</u>	<u>\$ 6,856</u>	<u>\$ -</u>	<u>\$ 14,516</u>	<u>\$ 65,968</u>

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, 2004 (Dollars in Thousands)

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

Net change in fund balances - total governmental funds \$ 14,099

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. 713

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues are presented in the fund statements as they become available. 5,228

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. (746)

Some expenses are reported in the Statement of Activities when incurred and presented in the governmental funds when paid. 883

Investment in joint venture treated as expenditure in fund statements, capitalized in government-wide Statement of Net Assets 148

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. (4,185)

Change in net assets of governmental activities \$ 16,140

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, 2004
(Dollars in Thousands)**

	Budgeted Amounts		Actual	Variance with Final Budget over/(under)
	Original	Final		
Revenues:				
Intergovernmental	\$ 234	\$ -	\$ -	\$ -
Property rentals	434	434	585	151
Motor fuel tax	7,571	7,571	7,576	5
Taxes, licenses, and fees	7,584	7,584	9,234	1,650
Interest	40	40	569	529
Trust fund income	22	22	90	68
Indirect cost settlement	-	1,289	646	(643)
Dividends from component units	7,500	10,250	11,717	1,467
Other	362	418	481	63
Total revenues	<u>23,747</u>	<u>27,608</u>	<u>30,898</u>	<u>3,290</u>
Expenditures:				
Tribal government	9,977	11,461	7,509	(3,952)
Member services	16,129	21,437	13,766	(7,671)
Capital outlay	690	1,875	1,052	(823)
Debt service	914	927	386	(541)
Total expenditures	<u>27,710</u>	<u>35,700</u>	<u>22,713</u>	<u>(12,987)</u>
Excess (deficiency) of revenues over expenditures	<u>(3,963)</u>	<u>(8,092)</u>	<u>8,185</u>	<u>16,277</u>
Other financing sources (uses):				
Transfers in	12,152	16,218	1,329	(14,889)
Transfers out	(18,668)	(26,732)	(674)	(26,058)
Total other financing sources (uses)	<u>(6,516)</u>	<u>(10,514)</u>	<u>655</u>	<u>11,169</u>
Excess (deficiency) of revenues and other financing sources over expenditures	<u>(10,479)</u>	<u>(18,606)</u>	<u>8,840</u>	<u>27,446</u>
Fund balance, October 1, 2003	<u>35,173</u>	<u>35,173</u>	<u>35,173</u>	<u>-</u>
Fund balance, September 30, 2004	<u>\$ 24,694</u>	<u>\$ 16,567</u>	<u>\$ 44,013</u>	<u>\$ 27,446</u>

CHEROKEE NATION

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

SEPTEMBER 30, 2004

(Dollars in Thousands)

	Business-type Activities- Enterprise Funds		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Totals	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 451	\$ 451	\$ 3,406
Investments	11	11	-
Accounts receivable, net	235	235	1,056
Due from other funds	3	3	2,341
Inventories	-	-	104
Other current assets	2	2	88
Total current assets	702	702	6,995
Restricted cash and cash equivalents	1,488	1,488	2,137
Capital assets, net	5,605	5,605	13,385
Total assets	7,795	7,795	22,517
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	81	81	3,150
Current portion of long-term debt	262	262	443
Current portion of capital leases	-	-	87
Due to other funds	1,353	1,353	1,871
Compensated absences	-	-	3,322
Other current liabilities	16	16	2,202
Total current liabilities	1,712	1,712	11,075
Deferred revenue	-	-	2,511
Long-term debt	955	955	3,993
Capital leases payable	-	-	436
Other liabilities	1,422	1,422	-
Total liabilities	4,089	4,089	18,015
NET ASSETS			
Invested in capital assets, net of related debt	4,388	4,388	8,862
Restricted			2,137
Unrestricted	(682)	(682)	(6,497)
Total net assets	\$ 3,706	3,706	\$ 4,502
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds		(3)	
Net assets of business-type activities		\$ 3,703	

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, 2004 (Dollars in Thousands)

	Business-type Activities- Enterprise Funds		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Totals	
Operating revenues:			
Property rentals	\$ 430	\$ 430	\$ 5
Charges for services and goods	2,603	2,603	49,861
Other	12	12	274
Total operating revenues	<u>3,045</u>	<u>3,045</u>	<u>50,140</u>
Operating expenses:			
Cost of sales	1	1	(8)
Salaries and wages	1,301	1,301	42,677
Other services and charges	1,220	1,220	9,543
Materials and supplies	130	130	1,004
Depreciation and amortization	763	763	1,042
Total operating expenses	<u>3,415</u>	<u>3,415</u>	<u>54,258</u>
Operating income (loss)	<u>(370)</u>	<u>(370)</u>	<u>(4,118)</u>
Nonoperating revenues (expenses):			
Interest income	19	19	11
Interest expense	(85)	(85)	(173)
Gain/(loss) on sale of fixed assets	(125)	(125)	42
Net nonoperating revenues (expenses)	<u>(191)</u>	<u>(191)</u>	<u>(120)</u>
Income (loss) before transfers	(561)	(561)	(4,238)
Transfers in	205	205	-
Transfers out	(355)	(355)	-
Change in net assets	<u>(711)</u>	<u>(711)</u>	<u>(4,238)</u>
Total net assets - beginning	<u>4,417</u>		<u>8,740</u>
Total net assets - ending	<u>\$ 3,706</u>		<u>\$ 4,502</u>
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds		(53)	
Change in net assets of business-type activities		<u>\$ (764)</u>	

See notes to basic financial statements

CHEROKEE NATION

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2004 (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	\$ 3,033	\$ 3,033	\$ 49,866
Payments to suppliers	(131)	(131)	(996)
Payments to employees	(1,301)	(1,301)	(42,677)
Internal activity, net - payments (to)/from other funds	437	437	7,767
Other receipts	12	12	(396)
Other payments	(1,082)	(1,082)	(8,584)
Net cash provided by operating activities	<u>968</u>	<u>968</u>	<u>4,980</u>
Cash flows from noncapital financing activities			
Operating subsidies and transfers (to)/from other funds	(150)	(150)	
Cash flows from capital and related financing activities			
Purchases of capital assets	(221)	(221)	(3,332)
Proceeds from capital debt	-	-	523
Principal paid on capital debt	(258)	(258)	(426)
Interest paid on capital debt	(85)	(85)	(173)
Proceeds from sales of capital assets			42
Net cash (used) by capital and related financing activities	<u>(564)</u>	<u>(564)</u>	<u>(3,366)</u>
Cash flows from investing activities			
Interest and dividends	19	19	11
Disposition of capital assets	42	42	-
Net cash provided by investing activities	<u>61</u>	<u>61</u>	<u>11</u>
Net increase (decrease) in cash and cash equivalents	315	315	1,625
Cash and cash equivalents, October 1, 2003	<u>1,624</u>	<u>1,624</u>	<u>3,918</u>
Cash and cash equivalents, September 30, 2004	<u>\$ 1,939</u>	<u>\$ 1,939</u>	<u>\$ 5,543</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (370)	\$ (370)	\$ (4,118)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	763	763	1,042
Change in assets and liabilities:			
Receivables, net	126	126	5,493
Inventories	4	4	6
Other current assets	4	4	(72)
Accounts and other payables	441	441	2,629
Net cash provided by (used for) operating activities	<u>\$ 968</u>	<u>\$ 968</u>	<u>\$ 4,980</u>
See notes to basic financial statements			

CHEROKEE NATION

STATEMENT OF NET ASSETS - COMPONENT UNITS

SEPTEMBER 30, 2004 (JUNE 30, 2004 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	\$ 8,183	\$ 14,488	\$ 769	\$ 332	\$ 106	\$ 23,878
Investments	11,758	-	-	-	-	11,758
Receivables, net	693	1,230	11,069	-	228	13,220
Mortgages receivable-Title VI	335	-	-	-	-	335
Due from primary government	1,635	-	-	-	-	1,635
Inventories	-	1,644	9,919	-	-	11,563
Prepaid Expenses	-	-	287	-	9	296
Deferred income taxes	-	-	1,148	-	-	1,148
Other current assets	973	1,363	79	1	-	2,416
Total current assets	23,577	18,725	23,271	333	343	66,249
Restricted investments	2,492	-	-	-	-	2,492
Inventory of homes for sale	4,429	-	-	-	-	4,429
Notes receivable	1,620	2,112	-	-	-	3,732
Mortgages receivable-Title VI and partnerships	20,076	-	-	-	-	20,076
Other assets	1,629	1	537	-	-	2,167
Capital assets, net	93,879	110,912	776	1,718	138	207,423
Total assets	147,702	131,750	24,584	2,051	481	306,568
LIABILITIES						
Current liabilities:						
Outstanding checks in excess of bank balance	-	4,248	262	-	-	4,510
Accounts payable and accrued liabilities	1,762	14,411	5,400	148	118	21,839
Line of credit	-	8,375	-	-	-	8,375
Current portion of long-term debt	870	-	165	-	-	1,035
Current portion of capital leases	-	2,287	-	-	3	2,290
Due to primary government	-	500	-	-	-	500
Deferred revenue	536	138	-	-	16	690
Other current liabilities	-	-	-	24	-	24
Total current liabilities	3,168	29,959	5,827	172	137	39,263
Long-term debt	18,154	-	13,813	2,112	-	34,079
Trust Liabilities	11,492	-	-	-	-	11,492
Capital leases payable	-	215	-	-	6	221
Deferred income taxes	-	-	88	-	-	88
Minority Interest	-	-	-	(104)	-	(104)
Total liabilities	32,814	30,174	19,728	2,180	143	85,039
NET ASSETS						
Invested in capital assets, net of related debt	94,188	100,034	719	-	130	195,071
Restricted for:						
Debt service	2,500	-	-	-	-	2,500
Program services	18,200	-	-	-	-	18,200
Unrestricted	-	1,542	4,137	(129)	208	5,758
Total net assets (deficit)	\$ 114,888	\$ 101,576	\$ 4,856	\$ (129)	\$ 338	\$ 221,529

See notes to basic financial statements

CHEROKEE NATION

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS (DEFICIT) -
 COMPONENT UNITS
 FOR THE YEAR ENDED SEPTEMBER 30, 2004 (52 weeks ended June 30, 2004 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	\$ 3,400	\$ 174,561	\$ 84,789	\$ -	\$ 2,305	\$ 265,055
Other	888	470	-	-	1	1,359
Total operating revenues	4,288	175,031	84,789	-	2,306	266,414
Operating expenses:						
Cost of sales/operations	7,932	58,577	54,315	63	-	120,887
Salaries and wages	6,043	43,064	20,599	91	1,601	71,398
Housing assistance	4,972	-	-	-	-	4,972
Other services and charges	947	21,323	6,455	75	748	29,548
Depreciation and amortization	5,422	7,071	313	-	9	12,815
Total operating expenses	25,316	130,035	81,682	229	2,358	239,620
Operating income (loss)	(21,028)	44,996	3,107	(229)	(52)	26,794
Nonoperating revenues (expenses)						
Grant revenue	21,707	-	-	-	-	21,707
Interest/investment income	614	248	-	-	-	862
Interest expense	(834)	(420)	(352)	(5)	(10)	(1,621)
Gain on disposal of assets	620	34	-	-	-	654
Other, net	(7)	-	(36)	-	-	(43)
Net nonoperating revenues (expenses)	22,100	(138)	(388)	(5)	(10)	21,559
Income (loss) before income taxes	1,072	44,858	2,719	(234)	(62)	48,353
Income tax benefit (expense)	-	-	(1,019)	-	-	(1,019)
Loss attributable to minority interest	-	-	-	105	-	105
Net Income (loss)	1,072	44,858	1,700	(129)	(62)	47,439
Dividends to primary government	-	(12,370)	-	-	-	(12,370)
Change in net assets	1,072	32,488	1,700	(129)	(62)	35,069
Net assets, beginning of year	113,816	69,088	3,156	-	400	186,460
Net assets (deficit), end of year	\$ 114,888	\$ 101,576	\$ 4,856	\$ (129)	\$ 338	\$ 221,529

See notes to basic financial statements

NOTES TO THE BASIC FINANCIAL STATEMENTS

CHEROKEE NATION
NOTES TO THE BASIC FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2004

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 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 Affordable Housing, Inc. ("CAH") is a non-profit 501(c)3 corporation organized under the laws of the State of Oklahoma created primarily to serve as the eligible 501(c)3 entity required to fill the position of general partner in the low income housing tax credit partnerships and related projects under development by the Housing Authority. CAH's financial activity is limited only to its role in the tax credit partnerships. The board of directors for CAH consists of the same board members of the Housing Authority. The president of CAH is the executive director of the Housing Authority. Based on the foregoing criteria and in compliance with the provisions of GASB No. 14, *The Financial Reporting Entity*, CAH is included as a "blended" component unit in the Housing Authority's financial statements.

The Cherokee Nation and Cherokee Affordable Housing, Inc. entered into a management agreement in October 2004, for a period of one year for the Cherokee Affordable Housing, Inc. to manage and maintain the Tsa-La-Gi Apartments property, an enterprise activity of the Nation. As consideration for the services provided under this agreement, the Managing Agent, Cherokee Affordable Housing, Inc. is paid a Management Fee equal to 10% of total rent and laundry income received. In fiscal year 2004 the Managing Agent, Cherokee Affordable Housing, Inc. was paid a total management fee of \$43,551.

Cherokee Nation Enterprises, Inc.—Cherokee Nation Enterprises, Inc. ("CNE") is a tribal corporation of the Nation, which operates gaming facilities, smoke shops, convenience stores, golf courses, a gift shop located in Oklahoma, and in 2004, acquired Will Rogers Downs, a horse racing facility. The Nation owns 100% of CNE, and while not directly managing the daily operations, is able to exert significant influence over CNE's activities as a result of its ownership. 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 2004, CNE paid \$652,000 to the Nation to cover costs associated with the Cherokee Nation Gaming Commission's oversight responsibilities.

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's operations since inception have been limited to renting the facilities for use by trainers, etc. pending formal approval for live racing.

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 activity for fiscal year 2004.

Cherokee Nation Industries, Inc., Cherokee Nation Distributors, Inc., & Cherokee Medical Services, L.L.C. (collectively “CNI”)—The Nation owns all of CNI’s outstanding stock, and while not directly managing the daily operations, is able to exert significant influence over CNI’s activities as a result of its stock ownership 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 issues combined financial statements. Cherokee Nation is the sole stockholder for each of these companies. 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, 2004.

Cherokee Nation Business, Inc.—Cherokee Nation Business, Inc. (“CNB”), a tribal corporation, was created June 16, 2004, to provide “decision support” services and strategic coordination to the Nation and to act as a holding company for certain Cherokee Nation investments in business enterprises. The primary activities entered into by CNB, for the fiscal year ended September 30, 2004, consisted of organizing Cherokee Technologies, LLC, (“CT”) to facilitate CNB’s 51% ownership interest in Cherokee Connex, LLC a wireless internet service provider. The Nation owns 100% of CNB and is able to exert significant influence over CNB’s activities as a result of its ownership and board member appointments.

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 owns 100% of CNHHS and is able to exert significant influence over CNHHS’ activities as a result of its ownership 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.

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 Partner, 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 Partner, LLC in the amount of \$148,000. 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 to this fund.

Excluded Organizations— The following organizations do 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 2004, Cherokee Nation law required that all corporations incorporated under Cherokee Nation law are subject to a pay 25% of their net income as a dividend to the Nation. 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 2004. 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 2004, 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, Cherokee Trails Golf Club, Landfill Operations, Ranch Operations, Childhood Development Centers, and Other enterprise activities in these funds. None of the Nation's enterprise funds are reported as major funds. In January 2004, the Nation entered into a memorandum of understanding with CNE to transfer all operations and management in regards to the Cherokee Trails Golf Club. This agreement transferred all equipment and inventory located at the Cherokee Trails Golf Club and Clubhouse to CNE, except for the building. The building remains in the Cherokee Nation capital assets. During 2004, the Nation also completed the closure of the Ranch Operations.
- **Component Units**—See pages 33 - 35 for descriptions of discretely presented component units.

Enterprise and internal service fund 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. Component unit financial statements include a statement of net assets and a statement of revenues, expenses and changes in fund net assets. No internal service or enterprise funds have revenue-backed outstanding debt. Therefore no segment information is required to be presented.

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.

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.

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

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 certain gross revenues pursuant to provisions of the National Indian Gaming Regulatory Act. Amounts owed under the gaming tax are paid to the National Indian Gaming Commission (“NIGC”) and have been reflected within operating expenses in the Statement of Revenues, Expenses, and Changes in Fund Net Assets.

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 and approval 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 2004 the Cherokee Nation bought back \$293,000 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 income. 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 income 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, 2004 was approximately \$9.3 million.

Operating and Non-Operating Revenues—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.

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, 2004, the Nation's interest earnings under the DOI Self Governance Compact, DOI - Roads, and DHHS Self Governance Compacts were approximately \$34,000, \$1,008,000 and \$333,000, 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. 40, *Deposit and Investment Risk Disclosures, an amendment of GASB Statement No. 3* - This Statement establishes and modifies disclosure requirements related to investment risks: credit risk (including custodial credit concentrations of credit risk), interest rate risk, and foreign currency risk. This Statement also establishes and modifies disclosure requirements for deposit risks: custodial credit risk and foreign currency risk. This Statement applies to all state and local governments. The provisions of this Statement are effective for financial statements of the Nation for the fiscal year ending September 30, 2005.

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.

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 \$21,370,000 difference are as follows (in thousands):

Capital assets, net	\$ 34,755
Less: Internal service fund capital assets	<u>(13,385)</u>
Capital assets used in governmental activities	<u>\$ 21,370</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 \$33,069,000 difference are as follows (in thousands):

IHS Indirect Cost Settlement (Note 5)	\$ 18,038
Arkansas River Drybed Lands Settlement receivable (Note 5)	14,301
MFT Revenue held by State of Oklahoma	582
Investment in Cherokee Health Partners, LLC	<u>148</u>
Net Adjustment to increase fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 33,069</u>

The final element of that reconciliation, excluding the net assets of the internal service funds of \$4,502,000, explains that “certain liabilities are not due and payable in the current period and, therefore, are not reported in the funds.” The details of this \$9,249,000 difference are as follows (in thousands):

IHS IDC Settlement legal fee liability (Note 5)	\$ 6,404
Long-term debt - governmental funds	1,871
Arkansas River Drybed Lands legal fee liability	774
Disallowed costs settlement liability	<u>200</u>
Net Adjustment to decrease fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 9,249</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 \$713,000 difference are as follows (in thousands):

Capital expenditures in governmental funds capitalized on government-wide financial statements	\$ 1,934
Depreciation expense	(1,445)
Other	<u>224</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 713</u>

Another element of that reconciliation states that “revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. These revenues are presented at the fund level as they become available.” The details of this \$5,228,000 difference are as follows (in thousands):

Indian Health Services Indirect Cost Settlement, net (Note 5)	\$ 11,634
MFT Revenue held by State of Oklahoma	582
Amounts accrued in government-wide in 2003, recorded at fund level in 2004	<u>(6,988)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 5,228</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 \$746,000 difference are as follows (in thousands):

Debt principal payments	\$ 1,272
Amount provided from HACN to the Nation for Title VI payment	(976)
Proceeds from Long-term debt for EDTA	(434)
Proceeds from Long-term debt for EDTA previously recorded as grant revenue in FY 2003	(554)
Amount received from HACN in FY 2004 for Title VI payment, payment made by Nation in FY 2005	<u>(54)</u>
Net adjustment to decrease changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ (746)</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 \$883,000 difference are as follows (in thousands):

Arkansas River Drybed Lands litigation legal fee	\$ 726
Disallowed cost settlement	100
Other	<u>57</u>
Net adjustment to increase net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 883</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 \$4,185,000 difference are as follows (in thousands):

Internal Service Fund activities:	
Changes in net assets	\$ (4,238)
Amounts allocated to enterprise funds	<u>53</u>
Net adjustment to decrease net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (4,185)</u>

3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

The Internal Service Funds' Fringe Pool and Construction had net deficits of \$3,951,000 and \$551,000 respectively, at September 30, 2004. If the above deficits cannot be recovered in future years through fringe charges and construction charges to other funds of the nation, the General Fund may be required to cover the deficits.

4. DEPOSITS AND INVESTMENTS

Deposits—Deposits, categorized to give an indication of risk assumed at September 30, 2004, were as follows (in thousands):

	Bank Balance Risk Category			Total Bank Balance	Carrying Amount
	(1)	(2)	(3)		
Primary Government:					
Deposits	\$ 13,151	\$ 70,379	\$ -	\$ 83,530	\$ 76,256
Cash on hand	-	-	-	-	87
Component Units:					
Deposits	2,969	6,827	1,796	11,592	10,677
Cash on hand	-	-	-	-	13,201
	<u>\$ 16,120</u>	<u>\$ 77,206</u>	<u>\$ 1,796</u>	<u>\$ 95,122</u>	<u>\$ 100,221</u>

- (1) Insured or collateralized with securities held by the Nation/Component Unit or by its agent in the Nation's/Component Unit's name.
- (2) Collateralized with securities held by the pledging financial institution's trust department or agent in the Nation's/Component Unit's name.
- (3) Uncollateralized.

The Nation's laws require that funds of the primary government be deposited in a financial institution that is insured, such as by the Federal Deposit Insurance Corporation ("FDIC"). Funds deposited in excess of federal deposit insurance are to be collateralized either by bonds, with a minimum of an AA rating, or by local, state, United States Government, or Cherokee Nation securities. Funds are not to be invested for a period in excess of 3 years without approval of the Executive and Finance Committee of the Tribal Council. Funds invested in a single financial institution in excess of \$100,000 are to have joint custody receipts secured and pledged to the Nation.

Investments—The Nation’s permissible investments include corporate obligations, United States Government obligations and Certificates of Deposit. Investments, categorized as to collateral risk assumed, at September 30, 2004 were as follows (in thousands):

	<u>Bank Balance Risk Category</u>			<u>Carrying Amount</u>	<u>Fair Value</u>
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>		
Primary Government:					
U.S. Government Securities	\$ 23,148	\$ -	\$ -	\$ 23,148	\$ 23,148
Certificates of Deposit	37,580	-	-	37,580	37,580
Corporate Bonds	2,658	-	-	2,658	2,658
Component Units:					
U.S. Government Securities	5,883	-	-	5,883	5,883
Certificates of Deposit	8,367	-	-	8,367	8,367
Total investments	<u>\$ 77,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 77,636</u>	<u>\$ 77,636</u>

- (1) Insured or registered, or securities held by the Nation/Component Unit or its agent in the Nation’s/Component Unit’s name.
- (2) Uninsured and unregistered, with securities held by the counterparty’s trust department or agent in the Nation’s/Component Unit’s name.
- (3) Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Nation’s/Component Unit’s name.

Restricted Cash, Cash Equivalents and Investments—Restricted cash, cash equivalents and investments and reserved cash at September 30, 2004 included the following:

- \$153,000 representing tenant security deposits held in trust, replacement reserves and mortgage escrow deposits for Tsa-La-Gi.
- Unspent proceeds of \$2,112,000 in the Internal Service Funds obtained from bank financing.
- \$1,335,000 relating to the capital replacement and closure and postclosure care costs of the Landfill Operations fund.
- \$11,325,000 reflecting the balance in Motor Fuel Tax Education Trust.
- \$525,000 relating to scholarship funds.
- \$4,947,000 relating to Indirect cost settlement restricted for expanding health care facilities and cash reserves.
- \$3,275,000 relating to the Motor Fuel Tax Scholarship Reserve.
- \$4,060,000 restricted for construction at Sequoyah High School.
- \$25,000 reserved for natural resources replacement.
- \$2,492,000 held in escrow relating to the Title VI loan with a bank (see Note 9).

The use of General Fund cash and cash equivalents may also be subject to reservations of fund balances established by the Tribal Council (see Note 11).

Reconciliation of note information to the accompanying statement of net assets (in thousands):

Carrying amounts per note:

Deposits	\$ 100,221
Investments	<u>77,636</u>
	<u>\$ 177,857</u>

	Primary Government	Component Units	Total
Balance sheet accounts:			
Cash and cash equivalents	\$ 63,092	\$ 23,878	\$ 86,970
Investments	48,881	11,758	60,639
Restricted cash, cash equivalents and investments	<u>27,756</u>	<u>2,492</u>	<u>30,248</u>
	<u>\$ 139,729</u>	<u>\$ 38,128</u>	<u>\$ 177,857</u>

5. RECEIVABLES

Receivables at September 30, 2004 consisted of the following (in thousands):

	Primary Government			Total
	Entitlements/ Grants & Contracts Receivable	Accounts Receivable	Interest Receivable	
Governmental Fund Receivables:				
General				
Motor fuel taxes	\$ -	\$ 1,979	\$ 87	\$ 2,066
Other taxes	-	23	-	23
Other	12	262	-	274
Special Revenue Funds:	<u>10,305</u>	<u>889</u>	<u>77</u>	<u>11,271</u>
Governmental fund receivables	10,317	3,153	164	13,634
Receivables recorded in the Government-wide financial statements that are not recorded in the funds:				
Arkansas River Drybed Lands Settlement	14,301	-	-	14,301
MFT Revenue held by State of Oklahoma	582	-	-	582
IHS Indirect Cost Settlement	-	18,038	-	18,038
Other - Internal Service Funds	-	1,056	-	1,056
Receivables of Governmental Activities	<u>\$ 25,200</u>	<u>\$ 22,247</u>	<u>\$ 164</u>	<u>\$ 47,611</u>
Accounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>\$ 28,038</u>	<u>\$ -</u>	<u>\$ 28,038</u>
Business Type Activities:				
Landfill operations	\$ -	\$ 165	\$ -	\$ 165
Other	-	127	-	127
	-	292	-	292
Less: Allowance for uncollectible accounts		<u>(57)</u>		<u>(57)</u>
	<u>\$ -</u>	<u>\$ 235</u>	<u>\$ -</u>	<u>\$ 235</u>

	Component Units					Total
	HACN	CNE	CNI	CNB	CNHHS	
Receivables:						
Accounts	\$ 562	\$ 1,230	\$ 11,290	\$ -	\$ 282	\$ 13,364
Interest	131	-	-	-	-	131
Gross receivables	693	1,230	11,290	-	282	13,495
Less: Allowance for uncollectibles	-	-	(221)	-	(54)	(275)
Receivables, net	<u>\$ 693</u>	<u>\$ 1,230</u>	<u>\$ 11,069</u>	<u>\$ -</u>	<u>\$ 228</u>	<u>\$ 13,220</u>

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 \$5,000,000 payment received in 2004, the also Nation received an additional \$699,000 payment in October 2004 that was accrued in the Nation's other governmental funds at September 30, 2004. The remaining receivable at September 30, 2004 of \$14,301,000 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 which will generally be paid on a prorata basis as payments are received from the Federal Government. At September 30, 2004, \$308,000 of this legal fee liability is reflected in the fund level financial statements and the total legal fee liability of \$1,082,000 is reflected in the government-wide 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 \$570,000 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 above 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 finally resolved by a decision of the Supreme Court of the United States which ruled in favor of the Nation. A portion of the claim receivable \$8,500,000 was specifically stipulated by the lower courts and a portion of the claim \$3,818,000 is the Nation's best estimate of the amount it will receive after additional negotiation with IHS. These amounts together with interest of \$5,720,000 make up the receivable balance presented above. In connection with this litigation the Nation incurred legal fees and related costs of approximately \$6,404,000. This receivable and related liability for legal fees are reflected in the accompanying government-wide statement of net assets and the net amount is reflected as a general revenue item in the government-wide statement of activities. This settlement will be reflected in the Nation's fund level financial statements as received.

6. INTERFUND BALANCES AND TRANSFERS

Interfund balances at September 30, 2004 consisted of the following (in thousands):

Due to General Fund from:	
Nonmajor enterprise funds	\$ 1,353
Internal service funds	1,871
Self Governance DOI - Roads	29
Self Governance DHHS	514
Housing and Urban Development	241
Nonmajor governmental funds	<u>4,215</u>
Total due to general fund from other funds	<u>\$ 8,223</u>
Due to nonmajor governmental funds from:	
General Fund	<u>\$ 247</u>
Due to nonmajor enterprise funds from:	
General fund	<u>\$ 3</u>
Due to internal service funds from:	
General fund	<u>\$ 2,341</u>

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

Interfund transfers for the year ended September 30, 2004 consisted of the following (in thousands):

Transfer	Amount
To General fund from:	
Self Governance DOI Roads	\$ 643
Nonmajor governmental funds	360
Nonmajor enterprise funds	<u>326</u>
Total transfers to General fund	<u>\$ 1,329</u>
To enterprise fund from:	
General fund	<u>\$ 205</u>
To nonmajor governmental funds from:	
General fund	\$ 469
Other nonmajor governmental funds	325
Housing and Urban Development	<u>40</u>
	<u>\$ 834</u>
Other transfers - transfers of capital assets from Cherokee Trails Golf Club to governmental capital assets	<u>\$ 29</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.

7. **INVENTORIES**

The Nation's inventories were comprised of the following at September 30, 2004 (in thousands):

	Internal Service Funds	Nonmajor Governmental Funds	Component Units	Total
Finished goods and raw materials	\$ -	\$ -	\$ 11,563	\$ 11,563
Food for distribution	-	772	-	772
Supplies	<u>104</u>	<u>-</u>	<u>-</u>	<u>104</u>
 Total inventories	 <u>\$ 104</u>	 <u>\$ 772</u>	 <u>\$ 11,563</u>	 <u>\$ 12,439</u>

The majority of the component unit inventory at September 30, 2004 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, 2004 follows (in thousands):

<u>Governmental Activities</u>	Balance, September 30, 2003	Additions and Net Transfers	Retirements	Balance, September 30, 2004
Activity by Major Class				
Capital assets, not being depreciated -				
Land	<u>\$ 8,987</u>	<u>\$ 11</u>	<u>\$ -</u>	<u>\$ 8,998</u>
Capital assets being depreciated:				
Buildings and improvements	23,665	2,499	-	26,164
Equipment	<u>16,330</u>	<u>2,824</u>	<u>(81)</u>	<u>19,073</u>
Total capital assets being depreciated	<u>39,995</u>	<u>5,323</u>	<u>(81)</u>	<u>45,237</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,063)	(579)	-	(7,642)
Equipment	<u>(10,001)</u>	<u>(1,907)</u>	<u>70</u>	<u>(11,838)</u>
Total accumulated depreciation	<u>(17,064)</u>	<u>(2,486)</u>	<u>70</u>	<u>(19,480)</u>
 Total capital assets being depreciated, net	 <u>22,931</u>	 <u>2,837</u>	 <u>(11)</u>	 <u>25,757</u>
 Activity by major class capital assets, net	 <u>\$ 31,918</u>	 <u>\$ 2,848</u>	 <u>\$ (11)</u>	 <u>\$ 34,755</u>

Depreciation expense was charged to functions as follows:

Governmental activities:

Tribal Government	\$ 718
Health Services	546
Education Services	173
Human Services	102
Community Services	114
Other Tribal Services	<u>833</u>

Total Governmental activities depreciation expense \$ 2,486

Business-Type Activities

	Balance, September 30, 2003	Additions and Net Transfers	Retirements	Balance, September 30, 2004
Capital assets, not being depreciated - Land	<u>\$ 105</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 105</u>
Capital assets being depreciated:				
Buildings and improvements	6,704	278	(555)	6,427
Machinery and equipment	<u>2,983</u>	<u>9</u>	<u>(696)</u>	<u>2,296</u>
Total capital assets being depreciated	<u>9,687</u>	287	<u>(1,251)</u>	<u>8,723</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,344)	(538)	373	(1,509)
Machinery and equipment	<u>(2,134)</u>	<u>(248)</u>	<u>668</u>	<u>(1,714)</u>
Total accumulated depreciation	<u>(3,478)</u>	<u>(786)</u>	<u>1,041</u>	<u>(3,223)</u>
Total capital assets being depreciated, net	<u>6,209</u>	<u>(499)</u>	<u>(210)</u>	<u>5,500</u>
Business-type activities capital assets, net	<u>\$ 6,314</u>	<u>\$ (499)</u>	<u>\$ (210)</u>	<u>\$ 5,605</u>

Many of the balances at September 30, 2003 as presented in the previous two tables differ from the balances presented in the prior year report. For the business-type activities these changes had no net effect and were made to more accurately reflect classifications of depreciable and nondepreciable assets. For the Governmental activities these changes included minor reclassification between categories and a net change of \$224,000 which has been reflected in the statement of activities as an adjustment to primary government expenses.

<u>Component Unit Activities</u>	Balance, September 30, 2003	Additions and transfers in	Retirements and transfers out	Balance, September 30, 2004
CNE and HACN:				
Capital assets, not being depreciated:				
Land	\$ 17,612	\$ 2,509	\$ (548)	\$ 19,573
Construction in progress	<u>26,220</u>	<u>67,309</u>	<u>(61,586)</u>	<u>31,943</u>
Total capital assets not being depreciated	<u>43,832</u>	<u>69,818</u>	<u>(62,134)</u>	<u>51,516</u>
Capital assets being depreciated:				
Buildings and improvements	150,525	50,676	(3,937)	197,264
Machinery and equipment	<u>24,717</u>	<u>15,239</u>	<u>(213)</u>	<u>39,743</u>
Total capital assets being depreciated	<u>175,242</u>	<u>65,915</u>	<u>(4,150)</u>	<u>237,007</u>
Less accumulated depreciation for:				
Buildings and improvements	(59,983)	(6,803)	2,557	(64,229)
Machinery and equipment	<u>(14,028)</u>	<u>(5,690)</u>	<u>214</u>	<u>(19,504)</u>
Total accumulated depreciation	<u>(74,011)</u>	<u>(12,493)</u>	<u>2,771</u>	<u>(83,733)</u>
Total capital assets being depreciated, net	<u>101,231</u>	<u>53,422</u>	<u>(1,379)</u>	<u>153,274</u>
CNE and HACN activities capital assets-net	<u>145,063</u>	<u>123,240</u>	<u>(63,513)</u>	<u>204,790</u>
Other Component Unit activities – CNHHS, CNI and CNB capital assets, net	<u>947</u>	<u>1,722</u>	<u>(36)</u>	<u>2,633</u>
Total of the Component Unit activities-capital assets, net	<u>\$ 146,010</u>	<u>\$ 124,962</u>	<u>\$ (63,549)</u>	<u>\$ 207,423</u>

Due to an error in the preparation of a capital asset schedule during fiscal year 2002, the beginning balance of net assets for fiscal year 2003 for HACN, as presented above, has been reduced by \$431,203 to reflect the correction of amounts previously reported.

LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2004 was as follows (in thousands):

<u>Governmental Activities</u>	Balance, October 1, 2003	Additions	Reductions	Balance, September 30, 2004	Current Portion	Long-Term Portion
Notes Payable						
3.7% Note payable to Bank of America. See (1) below.	4,862	-	(426)	4,436	442	3,994
Note payable to bank in fixed principal payments. See (2) below	\$ 10,245	\$ 9,755	\$ (922)	\$ 19,078	\$ 830	\$ 18,248
Note payable to bank bearing interest at Chase Prime (4% at September 30, 2004) 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	532		(198)	334	191	143
Note payable to bank collateralized by real estate bearing interest at 4% in monthly installments of approximately \$5,000 maturing in 2008.	270		(51)	219	42	177
Note payable to an individual in annual installments of \$80, without interest, with final payment due in March 2006, collateralized by real estate.	240	-	(80)	160	80	80
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.	135		(19)	116	19	97
Note payable to the Department of Agriculture in variable annual installments including interest of 1% per annum, with final payment due October 16, 2030.		990	(2)	988	80	908
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 October 2009. Secured by related equipment.	-	523	-	523	87	436
Total long-term debt	16,284	11,268	(1,698)	25,854	1,771	24,083
Compensated Absences (See (3) below)	2,908	4,913	(4,499)	3,322	3,322	-
Total long-term debt and compensated absences	<u>\$ 19,192</u>	<u>\$ 16,181</u>	<u>\$ (6,197)</u>	<u>\$ 29,176</u>	<u>\$ 5,093</u>	<u>\$ 24,083</u>

- (1) In May 2003, the Nation entered into a \$5,000,000 financing agreement with a bank to fund capital improvement projects and to re-finance the 1992 Series Revenue Bonds. This note bears interest at

3.7% per annum, in monthly principal and interest installments of \$49,913 with final payment due in May 2013. The Nation is in compliance with the financial covenants of this financing agreement at September 30, 2004.

- (2) In July 2002, the Nation entered into a \$50,000,000 loan agreement, 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, whose balance at September 30, 2004 was \$11,524,000 carries an interest rate of 6.7%. Pool B, whose balance at September 30, 2004 was \$7,500,000 carries a variable interest rate, reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2004 was 2.54%. Pool A is repayable in monthly principal payments of \$54,358 through May 1, 2022, plus interest. Pool B is an interest only loan until the April 1, 2005 payment at which time principal payments of \$36,232 will begin through June 1, 2022, plus interest. The loan matures in December 2022. The loan proceeds are being transferred to the HACN under a loan agreement between the Nation and the HACN to provide funding for construction or acquisition of 580 single-family homes within the Nation's fourteen county jurisdictional area. The Housing Authority will provide 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 2004, \$9,755,000 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, 2004 was \$19,024,000, of which, \$855,000 is included in notes receivable current and \$18,169,000 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, 2004, was \$1,217,000. The balance of Long-Term Debt for Component Units at September 30, 2004, was \$35,114,000. Long-term debt in the business-type activities and component units at September 30, 2004 consisted of the following (in thousands):

<u>Business-Type Activities</u>	Balance, October 1, 2003	Additions	Reductions	Balance, September 30, 2004	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.	\$ 803	\$ -	\$ (71)	\$ 732	\$ 76	\$ 656
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.	234	-	(48)	186	49	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.	224		(42)	182	45	137
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.	202		(85)	117	92	
Ranch Operations						
8% note payable to the Bureau of Indian Affairs in monthly installments of \$2,000 including interest, with the final payment due in May 2005, secured by certain equipment, fixtures and inventory.	13	-	(13)	-		
Total	\$ 1,476	\$ 0	\$ (259)	\$ 1,217	\$ 262	\$ 955

Component Units

	Balance, October 1, 2003	Additions	Reductions	Balance, September 30, 2004	Current Portion	Long-Term Portion
Cherokee Nation Industries, Inc. ("CNI")						
Revolving line of credit. See (1) below.	\$ 7,977	\$ -	\$ (272)	\$ 7,705	\$ -	\$ 7,705
Note payable from a bank with monthly installments of \$5 including interest at the treasury rate plus 2.5% (6.213% at June 30, 2004). The note matures in September 2005 and is secured by equipment.	111	0	(54)	57	50	7
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. As of July 2003 the terms of the promissory note were amended as follows: for the period beginning July through June 2004, monthly payments were to be the greater of either (1) 45% of the cost of applicable product sales for the immediately preceding month or (2) \$85; for the immediately preceding month or (2) \$85; for the period of July 2004 through August 2005 (2) \$30; for the period August 2004 through the date on which the value of applicable inventory is equal to or less than the unpaid principal balance of the promissory note CNI is required to pay 45% of the cost of applicable product sales for the immediately preceding month minus \$50. For the period from the cutover date through March 15, 2005, CNI is required to pay an amount equal to 50% of the cost of applicable product sales for the immediately preceding month minus \$50. However, if the result is zero or no payment is due nor is any refund due to CNI.						
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%. (Note 15)	7,201	-	(985)	6,216	115	6,101
Cherokee Medical Services ("CMS")						
Note payable to CNI with principal and all accrued interest calculated at 4.75%, payable June 30, 2003	1,404	-	(1,404)	-	-	-
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. See (2) below.	10,245	9,755	(976)	19,024	870	18,154
Cherokee Medical Services ("CMS")						
Notes payable to various automotive companies in monthly installments, with interest at 0.9%, collateralized by vehicles. The notes mature on various dates between 2003 and 2004.	8	-	(8)	-	-	-
Cherokee Nation Home Health Service ("CNHHS")						
8% Note payable to bank on a \$256,000 line of credit, which expires on April 27, 2004. The line of credit is collateralized by, and limited to, 65% of eligible accounts receivable, and personally guaranteed by CNHHS officers.	30	-	(30)	-	-	-
Cherokee Nation Businesses ("CNB")						
Revolving Promissory Note, See (3) below.		2,112	-	2,112	-	2,112
Total	\$26,976	\$11,867	\$(3,729)	\$35,114	\$ 1,035	\$ 34,079

- (1) CNI has a \$14 million revolving line of credit expiring in October 2007. At June 30, 2004, there was approximately \$7,705,000 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, 2004) 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 or \$14,000,000 whichever is less.
- (2) During fiscal year 2004 and 2003, the Housing Authority received loan advances totaling \$9,755,000 and \$10,245,000, respectively, related to the 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, whose balance at September 30, 2004 was \$11,524,000 carries an interest rate of 6.7%. Pool B, whose balance at September 30, 2004 was \$7,500,000 carries a variable interest rate, reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2004 was 2.54%. Pool A is repayable in monthly principal payments of \$54,358 through May 1, 2022, plus interest. Pool B is an interest only loan until the April 1, 2005 payment at which time principal payments of \$36,232 will begin through June 1, 2022, plus interest. During fiscal year 2004, the HACN made total principal payments on Pool A of \$976,081. (See Footnote 2 on page 56.)
- (3) 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 (5.5% at September 30, 2004), and is to be paid monthly commencing July 31, 2005. The interest incurred through July 31, 2005 will be added to the principal balance and thereafter interest payments will be made on a monthly basis. The unpaid principal of the note is due on June 30, 2007.

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

	Principal	Interest	Total
Governmental Activities:			
2005	1,724	1,241	2,965
2006	1,892	1,100	2,992
2007	1,709	1,010	2,719
2008	1,746	930	2,676
2009	1,758	844	2,602
2010 through 2014	7,609	2,528	10,137
2015 through 2019	5,835	1,526	7,361
2020 through 2024	3,299	236	3,535
2025 through 2029	200	10	210
2030 through 2031	82	1	83
	<u>\$ 25,854</u>	<u>\$ 9,426</u>	<u>\$ 35,280</u>
Business-Type Activities:			
2005	262	68	330
2006	203	53	256
2007	189	43	232
2008	168	32	200
2009	100	24	124
2010 through 2014	107	28	135
2015 through 2019	114	-	114
2020 through 2024	74	-	74
	<u>\$ 1,217</u>	<u>\$ 248</u>	<u>\$ 1,465</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, 2008 and a separate \$15 million dollar non-reducing line (Line B) available through November 1, 2004. Both lines may be renewed for one additional year with the payment of a fee. The non-reducing line was renewed November 1, 2004 and extended to November 1, 2005. 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, 2004, the interest rate in effect was 5.10%. No amounts were drawn on Line A. The amount outstanding on Line B at September 30, 2004 was \$8,375,245. The line of credit and CNE's business checking account utilize a daily sweep arrangement. Under this agreement, available cash balances are applied against CNE's line of credit. The line increases as checks are issued based on a set borrowing base and decrease as deposits are received. The line of credit is secured by a pledge of revenues, inventory, accounts receivables, and equipment. The line of credit is subject to affirmative covenants concerning financial ratios and is also subject to negative covenants.

11. FUND BALANCE DESIGNATIONS AND RESERVATIONS

At September 30, 2004, the Nation had a total General Fund fund balance of \$44,013,000. This balance includes \$33,287,000 that has been reserved by the Legislative Act or restricted by external sources and an unreserved fund balance of \$10,726,000. 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, 2004 follows (in thousands):

Balance at beginning of year	\$ 17,379
FY2004 Motor Fuel Tax revenues	7,576
Interest earnings on unexpended funds	339
Actual expenditures	<u>(6,963)</u>
Balance at end of year	<u>\$ 18,331</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, 2004 totaled approximately \$4,693,000. A summary of activity in this reserved fund balance during the year ended September 30, 2004 follows (in thousands):

Balance at beginning of year	\$ 3,631
FY2004 Motor Vehicle Tax revenues	5,972
Interest earnings on unexpended funds	44
Actual expenditures	<u>(4,954)</u>
Balance at end of year	<u>\$ 4,693</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 through 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, 2004 follows (in thousands):

Balance at beginning of year	\$ 4,252
Interest earnings on unexpended funds	49
2004 Indirect Cost Settlement	<u>646</u>
Balance at end of year	<u>\$ 4,947</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, 2004 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 monthly 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. The reserved fund balance and interest accumulated on the Sequoyah High School Multi-Purpose Facility at September 30, 2004 follows (in thousands):

Balance at beginning of year	\$ 4,017
Interest earnings on unexpended funds	<u>43</u>
Balance at end of year	<u>\$ 4,060</u>

Unreserved General Fund—A summary of activity in the unreserved General Fund balance for the year ended September 30, 2004 follows (in thousands):

Unreserved fund balance at beginning of year	\$ 4,638
FY2004 General Fund revenues and transfers in	32,227
Less:	
Additional funds restricted by Tribal Council in 2004	(2,752)
Actual expenditures and transfers out	<u>(23,387)</u>
Unreserved fund balance at end of year	<u>\$ 10,726</u>

The remaining fund balance reserved by legislative acts resides in other governmental funds and consists of \$4,821,000 of Arkansas River Drybed Lands Settlement funds reserved for the acquisition of land and \$2,665,000 of funds on deposit with the DOI that can not be spent without advance approval of the Tribal Council.

12. 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 \$1,422,000 reported as Landfill Closure and Postclosure Care Liability at September 30, 2004 (included in "Other Noncurrent Liabilities"), represents the cumulative costs recognized to date based on the existing use of 71% of the estimated capacity of the landfill. Landfill Operations will recognize the remaining estimated cost of closure and postclosure care of approximately \$218,000 as the remaining estimated capacity is filled. These estimated closure amounts are based on what it would cost to perform all closure and postclosure care in 2004. The Nation expects to close the landfill in the year 2012. 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, 2004, restricted cash and cash equivalents of approximately \$1,335,000 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.

13. 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, 2004. 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 a \$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 \$2,202,000 at September 30, 2004, 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>
2002	\$ 1,002	\$ 6,363	\$ (6,325)	\$ 1,040
2003	\$ 1,040	\$ 9,012	\$ (8,648)	\$ 1,404
2004	\$ 1,404	\$ 12,742	\$ (11,944)	\$ 2,202

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.

14. 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 2004 was approximately \$65 million, which included approximately \$64 million for employees covered by the plans.

Contributions to the 401(k) plan for 2004 were \$5,441,000. Contributions expressed in dollars and percent of covered payroll were: Nation \$2,073,000, 3.2%, and participants \$3,368,000, 5.3%.

Trend Information (in thousands)		
<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
2002	\$ 1,557	100%
2003	\$ 1,781	100%
2004	\$ 2,073	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 2004 were \$263,000 of which \$74,000 was required and made by the Nation and \$189,000 was made by participants.

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

15. COMMITMENTS AND CONTINGENCIES

Arkansas Riverbed—In 1970, in a lawsuit initiated by the Cherokee, Choctaw, and Chickasaw Nations against the State of Oklahoma, a judgment was awarded by the United States Supreme Court confirming that these Nations hold title to a portion of the Arkansas Riverbed and were entitled to receive certain revenues from riverbed property.

In connection with the lawsuit by the three tribes against the State of Oklahoma to confirm title to the Arkansas Riverbed, the Nation has agreed to pay legal fees equal to one-half of the future revenues to be derived from such assets until the total amount of \$3,500,000 has been paid for the legal services. If the full amount has not been paid by June 30, 2005, the balance will be canceled. Through September 30, 2004, approximately \$2,006,657 of such amount has been paid.

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.

Historical Society Subsidy and Matching Grant Act—By legislative act, the Nation has agreed to provide \$400,000 to the Cherokee Nation Historical Society beginning in FY 2005 and each year thereafter so long as funds are available. During the fiscal year 2004, \$600,000 was provided to the Cherokee Nation Historical Society.

The Historical Society received a \$200,000 loan through EDTA's Intermediary Relending Program on June 17, 2003. This loan was made to refinance a termed note and improve cash flow for the pottery operations. At the end of FY 2004, the outstanding balance of this loan was \$180,000.

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. The HACN has provided a "Completion Guarantee" to the Stilwell Senior Housing and Wisdom Keepers Limited Partnerships in order to cover any excess construction costs.

On December 5, 2002, the HACN entered into commitments to provide thirty-one year, zero percent interest long-term loans to the Clearwater Estates Limited Partnership and Cherokee West Limited Partnership for \$640,000 and \$840,000 respectively. The loans are contingent upon the award of Low Income Housing Tax Credits to the partnerships. During fiscal year 2003, the Housing Authority voted to withdraw its participation in both of these projects.

CNE Matters—New games continue to be introduced at the gaming sites which management of CNE believes are permitted under "Class II" gaming restrictions, however, the permissibility of these games can and may be, and historically successfully have been, challenged by licensing and governing authorities who 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 2006.

CNI Matters—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, no gain has been recognized for the year ending June 30, 2004. Any potential gain that may occur under the restructured note agreement would be recognized when future cash flows are known with certainty.

16. SUBSEQUENT EVENTS

Line of Credit Agreement – In February 2005, a line of credit agreement in the amount of \$5,000,000 was signed with Bank of America. Legislative Act 28-04, July 2004, amended Legislative Act 05-02, and authorized the Principal Chief or his/her designee to negotiate and execute a line of credit to provide cash requirements for the Cash Reserve and/or cash flow for operations not to exceed \$5,000,000 at any given time.

State-Tribal Gaming Act – In November of 2004, the voters of the State of Oklahoma passed the State-Tribal Gaming Act which authorized Indian Tribes to offer Class III gaming such as new types of gaming machines, some card games, and electronic gaming machines at racetracks. The Nation, under this new compact, would make payments to the state from the Class III operations which would be used for State educational purposes and rehabilitation of compulsive gamblers. The compact also allows the State a limited role of monitoring the Class III gaming activities. CNE has entered into a Class III gaming compact with the State under this recent law. It is anticipated that gaming revenues will increase and be protected from uncertainty in regards to the regulations for Class II gaming.

Tobacco Taxes - The Cherokee Nation has historically had an arrangement with the State of Oklahoma whereby the Nation or its retail tobacco licensees agreed to pay to the state a payment in lieu of state tobacco excise and sales tax in the amount of 25% of all applicable excise taxes. In addition, the Nation assesses a tax on its retail tobacco licensee's equal to fifty cents (.50) per carton of cigarettes and 5% on scrap tobacco. In 2004, the Nation entered into a new Tobacco Tax Compact with the state, whereby, they agreed that the Nation or its retail tobacco licensees would pay 25% of all applicable excise taxes existing as of January 1, 2003, plus 100% of all applicable taxes enacted by the state after January 1, 2004. The state agreed in turn that 50% of the payments received by the state relating to tax increases after January 1, 2004 would be remitted back to the Nation on a quarterly basis. In November 2004, the voters of the State Of Oklahoma passed an act significantly increasing the state tax on tobacco sales. The Nation and the state are in continuing discussion regarding this matter and the ultimate impact of the new Tobacco Tax Compact, and the recently enacted tax changes by the state on the Nation's tobacco tax revenues is not presently known.

CNB Grant Agreements – 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 grant funds require a 15% match, aggregating \$607,830 to be provided by CNB. If the grants are received it is likely that CNB will utilize its 51% owned investee, Cherokee Connex, to assist in providing the services required by the grants. Cherokee Connex has an agreement with a service provider, who assisted in locating and applying for the grant funds to pay them fees of \$103,331 for such services. CNB does not currently have

sufficient liquid assets to fund the match requirement and is evaluating alternatives in this regard prior to its decision to accept the grants.

CNHHS Matters—Effective November 2004, CNHHS became insured for workers' compensation coverage through the Nation's self-insurance plan.

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.
- **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** - 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.
- **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, 2004

(Dollars in Thousands)

	Special Revenue Funds										Permanent Funds			Total Nonmajor Governmental Funds			
	Self Governance	Sequoyah	Talking Leaves Job Corps	Food Distribution	Women, Infants, & Children	Head Start	PL 101-477	Title VI	EDTA	Other Grants	Tribal Judgment Funds	Tribal Trusts	Total		Sequoyah Endowment	Gammon Education Trust	Total
	DOI-Other	Education															
ASSETS																	
Cash and cash equivalents	\$ 1,943	\$ 3,598	\$ 51	\$ 2	\$ 175	\$ 239	\$ 6,433	\$ 130	\$ 629	\$ 6,941	\$ 6,361	\$ 747	\$ 27,249	\$ -	\$ -	\$ -	\$ 27,249
Investments					-	-					4,108	-	4,108	-	-	-	4,108
Receivables, net	54	2,788	135	5	70	158				1,273	737	1	5,221	-	-	-	5,221
Due from other funds	-	-	-	24	-	-				223	-	-	247	-	-	-	247
Inventories				772	-	-					-	-	772	-	-	-	772
Notes receivable					-	-			1,446	179	-	-	1,625	-	-	-	1,625
Other current assets	19				69	-					-	-	88	-	-	-	88
Restricted cash and cash equivalents					-	-					-	-	-	214	311	525	525
Total assets	\$ 2,016	\$ 6,386	\$ 186	\$ 803	\$ 314	\$ 397	\$ 6,433	\$ 130	\$ 2,075	\$ 8,614	\$ 11,206	\$ 748	\$ 39,310	\$ 214	\$ 311	\$ 515	\$ 39,835
LIABILITIES AND FUND BALANCE																	
Liabilities																	
Accounts payable and accrued liabilities	\$ 140	\$ 111	\$ 104	\$ 31	\$ 26	\$ 115	\$ 54	\$ -	\$ -	\$ 700	\$ 308	\$ 27	\$ 1,616	\$ -	\$ -	\$ -	\$ 1,616
Due to other funds	368	119	82	-	288	282	240	-	-	2,056	770	29	4,184	31	-	31	4,215
Deferred revenue	10	-	-	772	-	-	-	-	-	-	-	-	782	-	-	-	782
Deferred grant revenue	1,498	5,929	-	-	-	-	5,947	-	-	5,332	-	-	18,706	-	-	-	18,706
Total liabilities	2,016	6,159	186	803	314	397	6,241	-	-	8,088	1,028	56	25,288	31	0	31	25,319
Fund balance, reserved	-	227	-	-	-	-	192	130	2,075	528	10,178	692	14,022	183	311	494	14,516
Total liabilities and fund balance	\$ 2,016	\$ 6,386	\$ 186	\$ 803	\$ 314	\$ 397	\$ 6,433	\$ 130	\$ 2,075	\$ 8,614	\$ 11,206	\$ 748	\$ 39,310	\$ 214	\$ 311	\$ 515	\$ 39,835

CHEROKEE NATION

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED, SEPTEMBER 30, 2004**

(Dollars in Thousands)

	Special Revenue Funds												Permanent Funds			Total Nonmajor Governmental Funds	
	Self Governance DOI-Other	Sequoyah Education	Talking Leaves Job Corps	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	\$ 12,464	\$ 5,645	\$ 6,219	\$ 6,579	\$ 4,688	\$ 6,110	\$ 9,150	\$ -	\$ -	\$ 19,648	\$ -	\$ -	\$ 70,503	\$ -	\$ -	\$ -	\$ 70,503
Interest	34	52	-	-	-	2	50	836	72	51	261	8	1,366	2	3	5	1,371
Other	393	1	-	59	-	1,592	-	-	23	1,974	5,699	156	9,897	-	-	-	9,897
Total revenues	12,891	5,698	6,219	6,638	4,688	7,704	9,200	836	95	21,673	5,960	164	81,766	2	3	5	81,771
Expenditures:																	
Current operating:																	
Tribal government	2,650	-	-	-	-	-	-	-	-	868	397	79	3,994	-	-	-	3,994
Health services	-	-	-	-	4,668	-	-	-	-	10,913	-	-	15,581	-	-	-	15,581
Education services	4,025	6,025	6,211	-	-	7,704	2,184	-	-	1,714	-	-	27,863	4	-	4	27,867
Human services	2,945	-	-	7,039	-	-	6,966	-	-	5,046	-	-	21,996	-	-	-	21,996
Community services	26	-	-	-	-	-	-	9,755	-	235	-	-	10,016	-	-	-	10,016
Other tribal services	2,880	-	-	-	-	-	-	-	40	2,511	-	-	5,431	-	-	-	5,431
Debt services:																	
Principal	-	-	-	-	-	-	-	922	-	-	-	-	922	-	-	-	922
Interest	-	-	-	-	-	-	-	760	-	-	1	-	761	-	-	-	761
Capital outlay	39	83	8	-	20	-	-	-	-	369	-	-	519	-	-	-	519
Total expenditures	12,565	6,108	6,219	7,039	4,688	7,704	9,150	11,437	40	21,656	398	79	87,083	4	-	4	87,087
Excess (deficiency) of revenues over expenditures	326	(410)	-	(401)	-	-	50	(10,601)	55	17	5,562	85	(5,317)	(2)	3	1	(5,316)
Other financing sources (uses):																	
Proceeds of long term debt	-	-	-	-	-	-	-	9,755	434	-	-	-	10,189	-	-	-	10,189
Other proceeds	-	-	-	-	-	-	-	976	-	-	-	-	976	-	-	-	976
Transfers in	-	320	-	401	-	-	-	-	-	113	-	-	834	-	-	-	834
Transfers out	(326)	-	-	-	-	-	-	-	-	-	(360)	-	(686)	-	-	-	(686)
Total other financing sources (uses)	(326)	320	-	401	-	-	-	10,731	434	113	(360)	-	11,313	-	-	-	11,313
Excess (deficiency) of revenues and other financing sources over expenditures	-	(90)	-	-	-	-	50	130	489	130	5,202	85	5,996	(2)	3	1	5,997
Fund balance, October 1, 2003	-	317	-	-	-	-	142	-	1,586	398	4,976	607	8,026	185	308	493	8,519
Fund balance, September 30, 2004	\$ -	\$ 227	\$ -	\$ -	\$ -	\$ -	\$ 192	\$ 130	\$ 2,075	\$ 528	\$ 10,178	\$ 692	\$ 14,022	\$ 183	\$ 311	\$ 494	\$ 14,516

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.
- **Cherokee Trails Golf Club** – Utilized to account for the Nation’s operation of a golf course located adjacent to Sequoyah High School. This enterprise was transferred to Cherokee Nation Enterprises, Inc., a component unit of the Nation, in 2004.
- **Landfill Operations** – Utilized to account for the solid waste landfill operations of the Nation located in Stilwell, Oklahoma.
- **Ranch Operations** – Utilized to account for the activities of the Nation’s contract poultry operation. This operation was curtailed in 2003 and the fund was closed in 2004.
- **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.
- **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, 2004

(Dollars in Thousands)

	Tsa-La-Gi Apartments	Cherokee Trails Golf Club	Landfill Operations	Ranch Operations	Childhood Development Centers	Other Enterprises	Total
ASSETS							
Current assets:							
Cash and cash equivalents	\$ 36	\$ -	\$ 28	\$ -	\$ 377	\$ 10	\$ 451
Investments	11	-	-	-	-	-	11
Accounts receivable, net	-	-	108	-	110	17	235
Due from other funds	-	-	-	-	-	3	3
Other current assets	2	-	-	-	-	-	2
Total current assets	49	-	136	-	487	30	702
Restricted cash and cash equivalents	153	-	1,335	-	-	-	1,488
Capital assets, net	710	-	4,895	-	-	-	5,605
Total assets	912	-	6,366	-	487	30	7,795
LIABILITIES							
Current liabilities:							
Accounts payable and accrued liabilities	32	-	33	-	15	1	81
Current portion of long-term debt	76	-	186	-	-	-	262
Due to other funds	50	-	870	-	433	-	1,353
Other current liabilities	16	-	-	-	-	-	16
Total current liabilities	174	-	1,089	-	448	1	1,712
Long term debt	656	-	299	-	-	-	955
Other liabilities	-	-	1,422	-	-	-	1,422
Total liabilities	830	-	2,810	-	448	1	4,089
NET ASSETS							
Invested in capital assets, net of related debt	(22)	-	4,410	-	-	-	4,388
Unrestricted	104	-	(854)	-	39	29	(682)
Total net assets	\$ 82	\$ -	\$ 3,556	\$ -	\$ 39	\$ 29	\$ 3,706

CHEROKEE NATION

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
NON MAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(Dollars in Thousands)**

	Business-type Activities- Enterprise Funds						Total
	Tsa-La-Gi Apartments	Cherokee Trails Golf Club	Landfill Operations	Ranch Operations	Childhood Development Centers	Other Enterprises	
Operating revenues:							
Property rentals	\$ 430	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 430
Charges for services and goods	-	6	1,355	-	1,232	10	2,603
Other	7	-	-	-	5	-	12
Total operating revenues	437	6	1,355	-	1,237	10	3,045
Operating expenses:							
Cost of sales	-	1	-	-	-	-	1
Salaries and wages	28	21	410	-	842	-	1,301
Other services and charges	205	15	700	5	295	-	1,220
Materials and supplies	18	1	47	-	64	-	130
Depreciation and amortization	52	-	711	-	-	-	763
Total operating expenses	303	38	1,868	5	1,201	-	3,415
Operating income (loss)	134	(32)	(513)	(5)	36	10	(370)
Nonoperating revenues (expenses):							
Interest income	2	-	13	2	2	-	19
Interest expense	(53)	-	(31)	(1)	-	-	(85)
Gain/(loss) on sale of fixed assets	-	(19)	65	(171)	-	-	(125)
Net nonoperating revenues (expenses)	(51)	(19)	47	(170)	2	-	(191)
Income (loss) before transfers	83	(51)	(466)	(175)	38	10	(561)
Transfers in	-	169	-	36	-	-	205
Transfers out	-	(29)	-	(326)	-	-	(355)
Change in net assets	83	89	(466)	(465)	38	10	(711)
Total net assets - beginning	(1)	(89)	4,022	465	1	19	4,417
Total net assets - ending	\$ 82	\$ -	\$ 3,556	\$ -	\$ 39	\$ 29	\$ 3,706

CHEROKEE NATION

COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2004

(Dollars in Thousands)

	Business-type Activities- Enterprise Funds						Total
	Tsa-La-Gi Apartments	Cherokee Trails Golf Club	Landfill Operations	Ranch Operations	Childhood Development Centers	Other Enterprises	
Cash flows from operating activities:							
Receipts from customers	\$ 430	\$ 6	\$ 1,355	\$ -	\$ 1,232	\$ 10	\$ 3,033
Payments to suppliers	(18)	(2)	(47)	-	(64)	-	(131)
Payments to employees	(28)	(21)	(410)	-	(842)	-	(1,301)
Internal activity, net - payments (to)/from other funds	-	(138)	146	110	264	55	437
Other receipts	7	-	-	-	5	-	12
Other payments	(234)	(14)	(411)	(5)	(418)	-	(1,082)
Net cash provided/(used) by operating activities	157	(169)	633	105	177	65	968
Cash flows from noncapital financing activities							
Operating subsidies and transfers (to)/from other funds	-	140	-	(290)	-	-	(150)
Cash flows from capital and related financing activities							
Purchases of capital assets	-	-	(221)	-	-	-	(221)
Principal paid on capital debt	(71)	-	(174)	(13)	-	-	(258)
Interest paid on capital debt	(53)	-	(31)	(1)	-	-	(85)
Net cash (used) by capital and related financing activities	(124)	-	(426)	(14)	-	-	(564)
Cash flows from investing activities							
Interest and dividends received	2	-	13	2	2	-	19
Disposition of capital assets	3	26	-	13	-	-	42
Net cash provided by investing activities	5	26	13	15	2	-	61
Net increase (decrease) in cash and cash equivalents	38	(3)	220	(184)	179	65	315
Cash and cash equivalents, October 1, 2003	151	3	1,143	184	198	(55)	1,624
Cash and cash equivalents, September 30, 2004	\$ 189	\$ -	\$ 1,363	\$ -	\$ 377	\$ 10	\$ 1,939
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:							
Operating income (loss)	\$ 134	\$ (32)	\$ (513)	\$ (5)	\$ 36	\$ 10	\$ (370)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:							
Depreciation expense	52	-	711	-	-	-	763
Change in assets and liabilities:							
Receivables and due from (to) other funds	-	1	70	110	(110)	55	126
Inventories	-	4	-	-	-	-	4
Other current assets	-	-	4	-	-	-	4
Liabilities and other payables	(29)	(142)	361	0	251	0	441
Net cash provided by operating activities	\$ 157	\$ (169)	\$ 633	\$ 105	\$ 177	\$ 65	\$ 968

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, 2004

(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>
ASSETS						
Current assets:						
Cash and cash equivalents	\$ -	\$ 2	\$ 3,283	\$ 121	\$ -	\$ 3,406
Accounts receivable, net	-	-	841	184	31	1,056
Due from other funds	-	2	-	2,339	-	2,341
Inventories	-	-	-	104	-	104
Other current assets	-	-	-	88	-	88
Total current assets	-	4	4,124	2,836	31	6,995
Restricted cash & cash equivalents	2,112	25	-	-	-	2,137
Capital assets, net	10,612	559	-	2,214	-	13,385
Total assets	12,724	588	4,124	5,050	31	22,517
LIABILITIES						
Accounts payable and accrued liabilities	28	-	2,435	673	14	3,150
Current portion of long-term debt	443	-	-	-	-	443
Current portion of capital leases	8	79	-	-	-	87
Due to other funds	1,187	-	116	-	568	1,871
Compensated absences	-	-	3,322	-	-	3,322
Other current liabilities	-	-	2,202	-	-	2,202
Total current liabilities	1,666	79	8,075	673	582	11,075
Deferred revenue	-	-	-	2,511	-	2,511
Long-term debt	3,993	-	-	-	-	3,993
Capital leases payable	45	391	-	-	-	436
Total liabilities	5,704	470	8,075	3,184	582	18,015
NET ASSETS						
Invested in capital assets, net of related debt	6,168	480	-	2,214	-	8,862
Restricted	2,112	25	-	-	-	2,137
Unrestricted	(1,260)	(387)	(3,951)	(348)	(551)	(6,497)
Total net assets	\$ 7,020	\$ 118	\$ (3,951)	\$ 1,866	\$ (551)	\$ 4,502

CHEROKEE NATION

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004
(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>
Operating revenues:						
Property rentals	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 5
Charges for services and goods	2,430	75	27,844	19,512	-	49,861
Other	7	-	-	77	190	274
Total operating revenues	<u>2,442</u>	<u>75</u>	<u>27,844</u>	<u>19,589</u>	<u>190</u>	<u>50,140</u>
Operating expenses:						
Cost of sales	-	-	-	(8)	-	(8)
Salaries and wages	1,047	32	30,567	10,798	233	42,677
Other services and charges	1,157	137	602	7,577	70	9,543
Materials and supplies	220	3	-	780	1	1,004
Depreciation and amortization	349	121	-	572	-	1,042
Total operating expenses	<u>2,773</u>	<u>293</u>	<u>31,169</u>	<u>19,719</u>	<u>304</u>	<u>54,258</u>
Operating income (loss)	<u>(331)</u>	<u>(218)</u>	<u>(3,325)</u>	<u>(130)</u>	<u>(114)</u>	<u>(4,118)</u>
Nonoperating revenues (expenses):						
Interest income	11	-	-	-	-	11
Interest expense	(173)	-	-	-	-	(173)
Gain/(loss) on sale of fixed assets	-	53	-	(11)	-	42
Net nonoperating revenues (expenses)	<u>(162)</u>	<u>53</u>	<u>-</u>	<u>(11)</u>	<u>-</u>	<u>(120)</u>
Change in net assets	<u>(493)</u>	<u>(165)</u>	<u>(3,325)</u>	<u>(141)</u>	<u>(114)</u>	<u>(4,238)</u>
Total net assets - beginning	<u>7,513</u>	<u>283</u>	<u>(626)</u>	<u>2,007</u>	<u>(437)</u>	<u>8,740</u>
Total net assets - ending	<u>\$ 7,020</u>	<u>\$ 118</u>	<u>\$ (3,951)</u>	<u>\$ 1,866</u>	<u>\$ (551)</u>	<u>\$ 4,502</u>

CHEROKEE NATION

COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2004

(Dollars in Thousands)

	Internal Leases	Force Accounts	Fringe Pool	Indirect Cost Pool	Construction	Total
Cash flows from operating activities:						
Receipts from customers	\$ 2,435	\$ 75	\$ 27,844	\$ 19,512	\$ -	\$ 49,866
Payments to suppliers	(220)	(3)	-	(772)	(1)	(996)
Payments to employees	(1,047)	(32)	(30,567)	(10,798)	(233)	(42,677)
Internal activity, net - payments (to)/from other funds	1,433	24	5,552	620	138	7,767
Other receipts	-	(138)	(258)	-	-	(396)
Other payments	(1,149)	-	-	(7,530)	95	(8,584)
Net cash provided/(used) by operating activities	<u>1,452</u>	<u>(74)</u>	<u>2,571</u>	<u>1,032</u>	<u>(1)</u>	<u>4,980</u>
Cash flows from capital and related financing activities						
Purchases of capital assets	(1,976)	(449)	-	(908)	1	(3,332)
Proceeds from capital debt	53	470	-	-	-	523
Principal paid on capital debt	(426)	-	-	-	-	(426)
Interest paid on capital debt	(173)	-	-	-	-	(173)
Proceeds/(loss) from sales of capital assets	-	53	-	(11)	-	42
Net cash provided/(used) by capital and related financing activities	<u>(2,522)</u>	<u>74</u>	<u>-</u>	<u>(919)</u>	<u>1</u>	<u>(3,366)</u>
Cash flows from investing activities						
Interest and dividends	11	-	-	-	-	11
Net increase (decrease) in cash and cash equivalents	<u>(1,059)</u>	<u>-</u>	<u>2,571</u>	<u>113</u>	<u>-</u>	<u>1,625</u>
Cash and cash equivalents, October 1, 2003	<u>\$3,171</u>	<u>27</u>	<u>712</u>	<u>8</u>	<u>-</u>	<u>3,918</u>
Cash and cash equivalents, September 30, 2004	<u>\$ 2,112</u>	<u>\$ 27</u>	<u>\$ 3,283</u>	<u>\$ 121</u>	<u>\$ -</u>	<u>\$ 5,543</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:						
Operating income (loss)	\$ (331)	(\$218)	(\$3,325)	(\$130)	(\$114)	(\$4,118)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:						
Depreciation expense	349	121	-	572	-	1,042
Change in assets and liabilities:						
Receivables and due from (to) other funds	246	24	4,766	488	(31)	5,493
Inventories	-	-	-	6	-	6
Other current assets	-	-	-	(72)	-	(72)
Accounts and other payables	1,188	(1)	1,130	168	144	2,629
Net cash provided by operating activities	<u>\$ 1,452</u>	<u>\$ (74)</u>	<u>\$ 2,571</u>	<u>\$ 1,032</u>	<u>\$ (1)</u>	<u>\$ 4,980</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, 2004
(Dollars in Thousands)**

	Budgeted Amounts		Actual	Variance with Final Budget over/(under)
	Original	Final		
Operating revenues:				
Property rentals	\$ -	\$ -	\$ 430	\$ 430
Charges for services and goods	4,088	4,088	2,603	(1,485)
Other	-	13	12	(1)
Total operating revenues	4,088	4,101	3,045	(1,056)
Operating expenses:				
Cost of sales	13	13	1	(12)
Salaries and wages	1,689	1,689	1,301	(388)
Other services and charges	2,670	2,865	1,220	(1,645)
Materials and supplies	87	87	130	43
Depreciation and amortization	789	789	763	(26)
Total operating expenses	5,248	5,443	3,415	(2,028)
Operating income (loss)	(1,160)	(1,342)	(370)	972
Nonoperating revenues(expenses):				
Interest income	-	1	19	18
Interest expense	(61)	(61)	(85)	(24)
Gain/(loss) on sale of fixed assets			(125)	(125)
Net nonoperating revenue (expenses)	(61)	(60)	(191)	(131)
Income (loss) before transfers	(1,221)	(1,402)	(561)	841
Transfers in	1,430	1,466	205	(1,261)
Transfers out	(183)	(504)	(355)	(149)
Changes in net assets	26	(440)	(711)	(271)
Total net assets - beginning	4,417	4,417	4,417	
Total net assets - ending	\$ 4,443	\$ 3,977	3,706	\$ (271)
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(3)	
Net assets of Enterprise Funds			\$ 3,703	

STATISTICAL SECTION

CHEROKEE NATION

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

Fiscal Year	Charges for Services	Operating Grants & Contributions	Motor Fuels Tax	Motor Vehicle Tax	Other Tax Revenues	Unrestricted Grants & Contributions	Interest	Dividends from Components	Indirect Cost Settlement	Miscellaneous	Gain/(loss) on disposals	Total
2004	4,282	100,209	7,576	5,929	2,653	65,223	1,607	11,717	11,634	1,232	(124)	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
1995	3,324	80,148	-	-	1,550	-	1,198	1,800	-	2,551	-	90,571

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 2004 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	Tsa-La-Gi Apartments	Cherokee Trails Golf Club	Landfill Operations	Ranch Operations	Childhood Development Center	Other Enterprises	Total
2004	13,627	74,995	32,901	24,160	35,163	11,193	970	356	39	1,917	6	1,235	-	196,562
2003	12,075	67,356	32,423	24,671	51,252	8,750	689	359	192	1,982	52	1,358	1	201,160
2002	9,373	62,235	29,120	25,203	45,478	5,431	235	418	170	1,459	169	1,091	3	180,385
2001	15,960	45,889	8,131	25,001	-	53,134	299	407	153	795	199	884	2	150,854
2000	10,334	41,492	7,668	18,600	-	35,290	299	347	187	887	161	-	198	115,463
1999	9,147	38,207	8,367	17,154	-	35,433	339	358	204	1,029	157	-	262	110,657
1998	6,691	37,837	7,496	21,591	-	30,934	384	358	210	916	167	-	346	106,930
1997	8,603	31,263	7,798	18,524	-	30,615	401	358	107	910	180	-	315	99,074
1996	5,898	26,422	6,906	16,121	-	34,496	325	272	-	937	193	-	1,023	92,593
1995	4,550	26,039	6,069	18,080	5,277	30,130	305	354	-	797	180	-	760	92,541

2002 through 2004 expenses are not comparable to 2001 and prior years due to the adoption of GASB 34.

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	116,598	1,066,024	11%

Source: U.S. Census Bureau: 2000

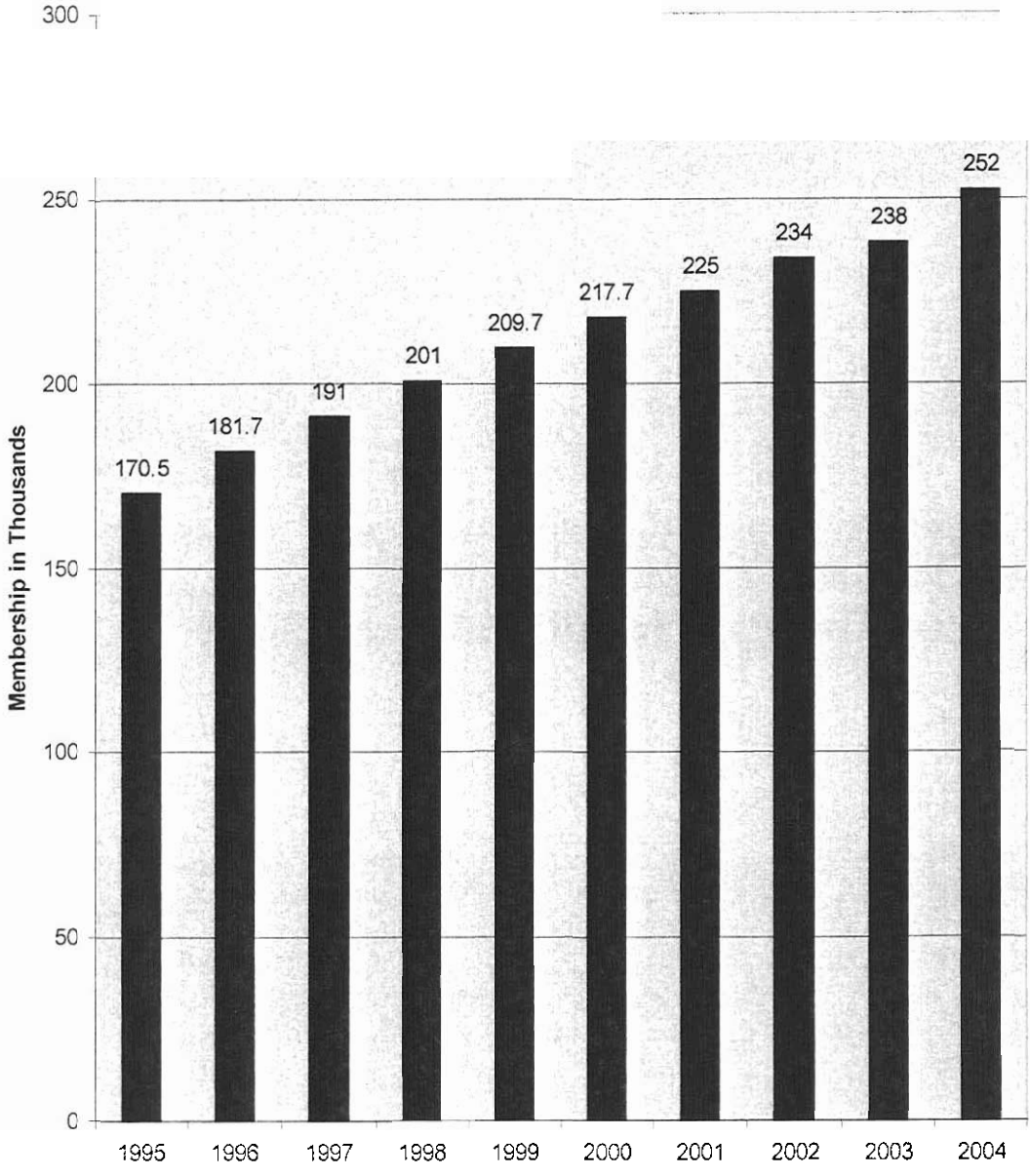
CHEROKEE NATION

TRIBAL LAND BASE (ACRES) BY COUNTY AS OF SEPTEMBER 30, 2004

County	Tribal Land	Government Land	Restricted Individual	Total Acres
<u>Cherokee Nation:</u>				
Oklahoma:				
Adair	12,940	19	10,566	23,525
Cherokee	908	324	9,614	10,846
Craig	90	-	1,843	1,933
Delaware	24,784	10	6,556	31,350
McIntosh	-	-	596	596
Mayes	356	10	5,368	5,734
Muskogee	75	-	2,342	2,417
Nowata	30	-	610	640
Ottawa	-	-	79	79
Rogers	518	-	801	1,319
Sequoyah	1,641	44	5,850	7,535
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	61,061	407	46,438	107,906

Source: Cherokee Nation Land Department

CHEROKEE NATION
Tribal Membership Growth



Source: Tribal Registration Department