

# CHEROKEE NATION

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TAHLEQUAH, OKLAHOMA

COMPREHENSIVE ANNUAL  
FINANCIAL REPORT

FISCAL YEAR ENDED  
SEPTEMBER 30, 2006

# **CHEROKEE NATION**

**Tahlequah, Oklahoma**



## **COMPREHENSIVE ANNUAL FINANCIAL REPORT**

**YEAR ENDED  
SEPTEMBER 30, 2006**

**Prepared by  
Financial Resource Group**

CHEROKEE NATION  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006

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# INTRODUCTORY SECTION



# CHEROKEE NATION

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

Chad "Corntassel" Smith  
ᏆᏃᏁᏍᏏ  
Principal Chief

Joe Grayson  
ᏅᏍᏁᏍᏏ ᏅᏍᏁᏍᏏ  
Deputy Principal Chief

March 28, 2007

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, 2006. 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, 2006.

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."

## 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 amended by the Constitutional Convention in 1999 and ratified by a vote of the Cherokee citizens in 2003. This Constitution defines the distribution and separation of powers among the three branches of government. The three branches and their respective powers include the:

- (1) **Executive Branch**--the executive power is vested in the Principal Chief, currently Chadwick "Corntassel" 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.

- (2) **Legislative Branch**--the Legislature consists of seventeen (17) tribal council members, who are citizens of the Cherokee Nation. The Tribal Council is elected to four-year terms from the nine districts of the Cherokee Nation and two at-large members who represent citizens living outside the jurisdictional area. 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 Supreme Court and the Cherokee Nation District Court. Supreme Court Justices are appointed by the Principal Chief and confirmed by the Tribal Council. The primary responsibility of the Justices is to hear and resolve any disagreements arising under the provisions of the Constitution or any enactment of the Tribal Council. The District Court system hears all cases brought before it under jurisdiction of the Cherokee Nation Code Annotated, Title 20, Courts and Procedure.

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 under this legislation. In 1975, Ross O. Swimmer was elected to the office of the Principal Chief and was re-elected in 1979 and 1983. In December 1985, Ross O. Swimmer resigned as Principal Chief of the Nation to become the Assistant Secretary of the Department of Interior for the Bureau of Indian Affairs. Wilma P. Mankiller, formerly Deputy Chief, was appointed Principal Chief and was elected to consecutive four-year terms in 1987 and 1991. Wilma Mankiller chose not to seek re-election in 1995. Joe Byrd was elected as Principal Chief in 1995. In 1999, Chad Smith was elected as Principal Chief. In May 2003, he was re-elected as Principal Chief and has continued his mission of improving services, increasing cultural awareness and increasing the resources for the betterment of the Cherokee Nation throughout 2006.

## **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. The Constitution provides for a three member Cabinet, the Secretary of State, the Treasurer and the Secretary of Natural Resources. The Secretary of State is responsible for a variety of governmental functions including but not limited to the certification of petitions, referring amendments of the constitution to the people, and receipt of petitions, orders for initiatives, and oaths of office. The Treasurer provides oversight and direction for the Nation on all financial matters, including annual budgets, investment of funds, and financial reporting in conformance with Generally Accepted Accounting Principles. The Secretary of Natural Resources advises the Chief on natural resource issues and works to advance the Nation's top environmental strategic priorities. The Secretary of Natural Resources office is currently vacant.

The Constitution also created an office of Attorney General and an office of Marshal. The Attorney General and Marshal are appointed by the Principal Chief and confirmed by the Tribal Council for a term of five (5) years. The terms of the Attorney General and Marshal shall not be concurrent. The Attorney General represents the Cherokee Nation in all criminal cases in the courts of the Nation, and in all civil actions wherein the Cherokee Nation is named as a party and shall have such other

duties as the Council may prescribe by law. The Marshal enforces tribal law within the jurisdiction of the Cherokee Nation.

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. Management Resources
  - e. Government Resources

## **Reporting Entity**

The Nation determines its financial reporting entity in accordance with Governmental Accounting Standards Board ("GASB") Statement No. 14, "The Financial Reporting Entity," as amended by GASB Statement No. 39 and, based on that criterion, has included the following entities as component units within the Nation's basic financial statements.

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

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



## **Excluded Organizations**

During 2006, the following organizations did not meet the criteria for inclusion in the reporting entity and accordingly their financial operations are excluded from this report.

Cherokee Nation Education Foundation  
Cherokee National Historical Society

## **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. The Nation did not change any financial policies that had a significant impact on the fiscal year's financial statements.

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

As a part of the Nation's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the Nation has complied with applicable laws and regulations. The results of the Nation's single audit for the fiscal year ended September 30, 2006, are included in a separately issued Single Audit Report.

Budget - Title 62, §31-32 provides the legal level of budgetary control for the Cherokee Nation. The Executive and Finance Committee of the Council, upon direction of the 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; Cherokee Nation limits uses of funds to the availability of the sources of revenues.

Should the need arise for management to transfer funds or propose additional appropriations, the Executive and Finance Committee of the Council, upon direction of the Treasurer and with advisement from the Controller, shall be responsible for proposing amendments to the annual appropriations law based upon material changes in real or estimated revenues and expenditures that affect the total amounts budgeted. Any amendments to the annual appropriations bill shall be presented to the full Council for consideration and passage. Any funds received by the Cherokee Nation, the use of which is determined by the granting or contracting agency (special revenue funds)

shall be used only for those purposes and under those conditions for which the funds are made available and such funds are not subject to legal appropriation by the Tribal Council.

The basic financial statements contain a budget and actual comparative statement for the General Fund, a legally budgeted fund. A budgetary statement for enterprise funds, which are also legally budgeted, is included in the budgetary information section of Other Supplementary Information. Budgets for the Nation are prepared on the same basis of accounting as the financial reports; therefore, no reconciliation is necessary.

## **Economic Outlook**

Since fiscal year 2002, the Cherokee Nation primary government has increased its total assets by approximately \$180,000,000 or 132%. 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." The Nation's long-term financial planning process utilizes a Strategic Budget Committee to ensure discretionary resources are used to support the vision of the Nation. The planning process encompasses the annual financial budget process, as well as long-term strategic planning for use of the Nation's resources.

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**

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Cherokee Nation for its comprehensive annual financial report for the fiscal year ended September 30, 2005. This was the

fifth consecutive year that the government has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgements**

The preparation of the 2006 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 BKD, LLP, independent auditors for the Cherokee Nation, for the guidance and technical assistance in completing this CAFR.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Callie Catcher". The signature is written in a cursive style with a large initial "C".

**Callie Catcher**  
Treasurer

# Cherokee Nation Tribal Officials 2006

## EXECUTIVE BRANCH

**Chadwick "Corntassle" Smith**

**Principal Chief**

**Joe Grayson, Jr.**

**Deputy Principal Chief**

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## LEGISLATIVE BRANCH

**Bill John Baker**

**District 1**

**Cherokee**

**Audra Smoke-Conner**

**District 1**

**Cherokee**

**S. Joe Crittenden**

**District 2**

**Trail of Tears**

**Jackie Bob Martin**

**District 2**

**Trail of Tears**

**David Thornton, Sr.**

**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**

**John F. Keener**

**District 6**

**Mayes**

**Cara Cowan-Watts**

**District 7**

**Will Rogers**

**Buel Anglen**

**District 8**

**Oologah**

**William G. "Bill" Johnson**

**District 8**

**Oologah**

**Charles "Chuck" Hoskin**

**District 9**

**Craig**

**Taylor Keen**

**At Large**

**Jack D. Baker**

**At Large**

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## JUDICIAL BRANCH

**Darrell R. Dowty**

**Justice**

**Stacy Leeds**

**Justice**

**Darell R. Matlock**

**Chief Justice**

**James G. Wilcoxon**

**Justice**

**Kyle B. Haskins**

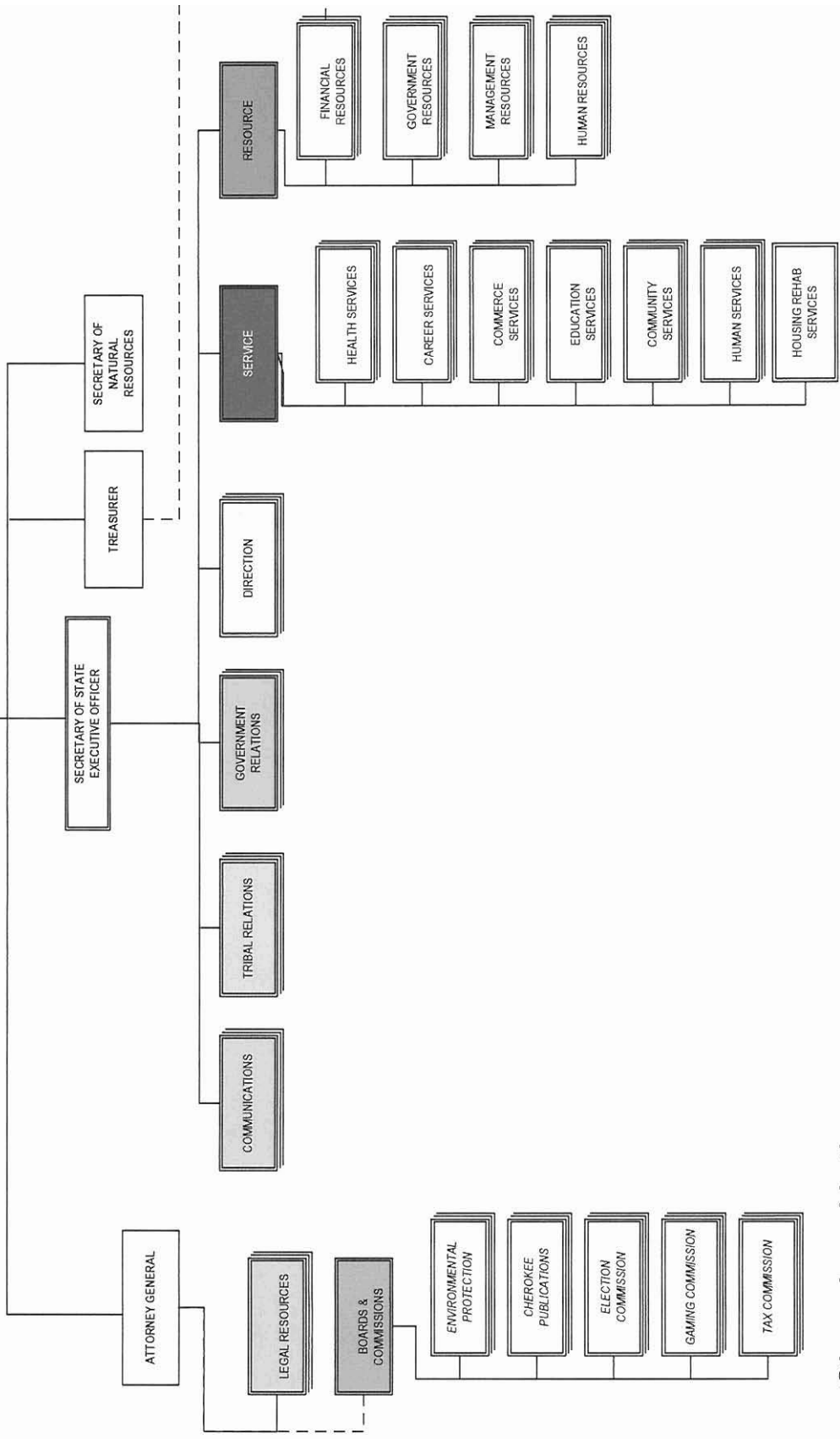
**Justice**

JUDICIAL  
SUPREME COURT

LEGISLATIVE  
TRIBAL COUNCIL

OFFICE OF PRINCIPAL  
CHIEF

DEPUTY PRINCIPAL  
CHIEF



**Cherokee Nation**  
Organizational Chart  
September 30, 2006

# 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, 2005

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

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# FINANCIAL SECTION





## Independent Accountants' Report on Financial Statements and Supplementary Information

The Principal Chief and Tribal Council  
Cherokee Nation  
Tahlequah, Oklahoma

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, 2006, 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 (HACN) or Cherokee Nation Home Health Services, Inc. (CNHHS), which are discretely presented component units of the Nation. The financial statements of HACN and CNHHS, which collectively comprise 36% of total assets and 2% of total operating revenues of the aggregate discretely presented component units, were audited by other accountants whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for HACN and CNHHS, is based solely on the reports of the other accountants.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 provides a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Cherokee Nation as of September 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 28, 2007, on our consideration of the Nation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis as listed in the table of contents 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 accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The accompanying information in the statistical section, as listed in the table of contents, has not been subjected to the procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

BKD LLP

March 28, 2007

## 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, 2006. 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 2006 by \$145 million (net assets). Of this total amount, \$69 million are unrestricted net assets that may be used to meet the government's ongoing obligations.
- The Nation's overall liabilities increased by approximately \$22 million to \$170 million.
- The net assets increased by \$21 million, which is largely attributable to an increase in dividends from component units, increases in revenues from motor vehicle and tobacco taxes and increases in capital assets, net of related debt.

### 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 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 dividends from component units, taxes, intergovernmental revenues (state and federal grants), and private grants. The services provided by the Nation's government generally fall into this category, including tribal government, health services, education services, human services, community services, and other tribal services.
- *Business-Type Activities* – These types of activities are intended to recover all or a substantial portion of their costs through user fees and charges to external users of the goods and services. The business type activities of the Nation include the Landfill Operations, Tsa-La-Gi Apartments, Economic Development Trust Authority, 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 Industries, Inc. (“CNI”) and related companies
- Cherokee Nation Businesses, LLC (“CNB”) and related companies
- Cherokee Nation Home Health Services, Inc. (“CNHHS”)
- Cherokee Nation Comprehensive Care Agency (“CNCCA”)

Complete financial statements for each HACN, CNI, CNB and CNHHS 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 25 and 27 of the financial statements.

The Nation maintains five 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 five major governmental funds are the General Fund, Self Governance DOI Roads, Self Governance DHHS, Housing and Urban Development and Sequoyah Education funds. In addition, the Nation maintains fifteen nonmajor funds, including two permanent funds, a capital projects fund and a debt service fund to account for other governmental activity. The governmental fund statements can be found on pages 25 and 26 of this report.

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

The proprietary funds financial statements can be found on pages 29 - 31 immediately following the governmental fund financial statements. The Nation's propriety funds include Enterprise and Internal Service Funds, which are described below.

*Enterprise Funds* – The Nation has four nonmajor enterprise funds for presentation purposes. The funds are the Nation’s Landfill Operations, Tsa-La-Gi Apartments, Economic Development Trust Authority (EDTA), and Other Enterprises. The non-major enterprise combining financial statements can be found on pages 76 - 78 of this report.

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

The internal service funds are:

- *Internal Leases* – used to account for the cost to maintain buildings for use by other funds of the Nation.
- *Force Accounts* – used to acquire and maintain equipment and supplies used by other funds of the Nation.
- *Fringe Pool* – used to account for the cost of fringe benefits, including the Nation’s self-insured health care and worker’s compensation benefits, used by other funds of the Nation.
- *Indirect Cost Pool* – used to account for the cost of providing certain services, such as accounting, human resources, and acquisition management, to other funds of the Nation.
- *Construction Management* – used to account for the cost to manage construction of buildings for use by other funds of the Nation. In 2006, the activities of this fund were transferred to CNI, a component unit of the Nation.

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

*Cherokee Nation Component Unit Financial Statements* – As previously mentioned above, the component units are operations over which the Nation has financial accountability, but 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 32 and 33 of this report.

## **Notes to Basic Financial Statements**

The notes to basic financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements. The notes to basic financial statements can be found on pages 34 - 73 of this report.

## Supplementary Information

The basic financial statements are followed by a section of supplementary information. This section of the report includes combining schedules for nonmajor governmental and enterprise funds, internal service funds, one of the Nation's component units 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		2006	2005	Increase/ (Decrease)	Percentage Increase/ (Decrease)
<b>General Fund</b>					
Revenues and transfers in	(1)	\$ 63,289	\$ 54,027	\$ 9,262	17.1 %
Expenditures and transfers out	(2)	49,398	39,073	10,325	26.4 %
<b>Self Governance DOI Roads</b>					
Revenues and transfers in	(3)	11,536	3,522	8,014	227.5 %
Expenditures and transfers out	(3)	12,119	3,522	8,597	244.1 %
<b>Self Governance DHHS</b>					
Revenues and transfers in	(4)	70,940	61,876	9,064	14.6 %
Expenditures and transfers out	(4)	68,547	63,428	5,119	8.1 %
<b>Housing and Urban Development</b>					
Revenues and transfers in	(5)	24,295	24,692	(397)	(1.6)%
Expenditures and transfers out	(5)	24,295	24,692	(397)	(1.6)%
<b>Sequoyah Education</b>					
Revenues and transfers in	(6)	6,823	6,300	523	8.3 %
Expenditures and transfers out	(6)	6,468	6,141	327	5.3 %

(1) Revenue increases for General Fund are primarily the result of increased dividends from component units of \$7.5 million, increases in tax and license revenues of \$5.7 million and increased interest income of \$1.5 million offset by a reduction in revenue from indirect cost settlements of \$6.1 million.

(2) General Fund expenditures and transfers increased in FY2006 as compared to FY2005 by a total of \$10.3 million. The largest contributors to the increased expenditures were in salaries and fringe benefits of \$3 million, contract services of \$1.5 million, and client services of \$1.2 million. The increase in contract services included expenditures for community work projects, contract health services and an increased amount distributed from Motor Vehicle Tax to the schools and for highway construction.

(3) Self Governance DOI Roads program reflects an increase in revenue and expenditures as a result of new projects initiated in 2006.

(4) Self Governance DHHS revenue increased in FY 2006 primarily due to a \$9 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 slightly less than FY2005 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.

(6) Sequoyah Education revenue and expenditures increased in FY2006 primarily due to additional funding received from DOI for indirect costs.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Net Assets**

As stated earlier, the government-wide financial statements are presented to give a broad overview of the government as a whole. Total assets for the Nation’s governmental activities at fiscal year ending September 30, 2006 were \$304 million. Of the \$304 million, \$56 million is related to investment in capital assets such as land, buildings, and equipment. Other assets, primarily cash, investments, and receivables, represent funds available to meet both current and future obligations of the Nation.

Total liabilities of the Nation’s governmental activities at September 30, 2006 were \$164 million. Of this amount, approximately \$37 million relates to long-term obligations primarily for the Title VI guaranteed loan program used to provide affordable housing for sale to Tribal citizens and capital asset acquisitions. Other liabilities represent accounts payable and deferred grant revenue and other obligations generally due within one year of the financial statement date.

The assets of the Nation’s governmental activities exceeded liabilities at September 30, 2006 by \$140 million, which is stated as net assets.

The Nation’s business-type activities have total assets of \$11 million at September 30, 2006. Of the \$11 million, \$7 million is related to investment in capital assets such as land, buildings and equipment. The liabilities related to the business-type activities at fiscal year end were \$6 million. Of that amount, approximately \$4 million related to long-term obligations primarily to finance capital asset acquisitions and economic development authority loans for small business development. Other liabilities represent accounts payable and other obligations generally due within one year of the financial statement date. The assets of the Nation’s business-type activities exceeded liabilities at September 30, 2006 by \$5 million, which is stated as net assets. The following table presents the Nation’s net assets for the primary government (in thousands):



	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 247,888	\$ 221,803	\$ 4,316	\$ 2,736	\$ 252,204	\$ 224,539
Capital assets	<u>56,443</u>	<u>40,798</u>	<u>6,761</u>	<u>6,851</u>	<u>63,204</u>	<u>47,649</u>
Total assets	<u>304,331</u>	<u>262,601</u>	<u>11,077</u>	<u>9,587</u>	<u>315,408</u>	<u>272,188</u>
Long-term debt outstanding	36,858	35,885	3,647	2,430	40,505	38,315
Other liabilities	<u>127,557</u>	<u>107,298</u>	<u>2,357</u>	<u>1,999</u>	<u>129,914</u>	<u>109,297</u>
Total liabilities	<u>164,415</u>	<u>143,183</u>	<u>6,004</u>	<u>4,429</u>	<u>170,419</u>	<u>147,612</u>
Net assets invested in capital assets, net of related debt	47,627	35,969	4,653	5,519	52,280	41,488
Restricted	23,250	16,822	-	-	23,250	16,822
Unrestricted	<u>69,039</u>	<u>66,627</u>	<u>420</u>	<u>(361)</u>	<u>69,459</u>	<u>66,266</u>
Total net assets	<u>\$ 139,916</u>	<u>\$ 119,418</u>	<u>\$ 5,073</u>	<u>\$ 5,158</u>	<u>\$ 144,989</u>	<u>\$ 124,576</u>

\$52 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, \$69 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, 2006, 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 \$21 million, or 17%, during the year. Total revenues for fiscal year ended September 30, 2006 were \$248 million. Total expenses of the Nation were \$227 million, which cover a variety of services. Approximately 38% of the total expenses were for health care for Tribal citizens. In total, governmental-type revenue exceeded expenses by \$21 million resulting in an increase in net assets. Net expenses for business-type activities exceeded revenues by \$85 thousand, resulting in a decrease in net assets. The changes in net assets during 2006 are as follows (in thousands):

**Cherokee Nation's Changes in Net Assets**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 2,576	\$ 2,001	\$ 1,737	\$ 3,192	\$ 4,313	\$ 5,193
Operating grants and contributions	108,177	104,278	119	104	108,296	104,382
Capital grants and contributions	411	-	-	-	411	-
General revenues:						
Motor fuel tax	7,406	8,094	-	-	7,406	8,094
Motor vehicle tax	7,188	6,382	-	-	7,188	6,382
Tobacco tax and fees	7,063	3,133	-	-	7,063	3,133
Sales tax	1,144	686	-	-	1,144	686
Unrestricted investment earnings	5,941	3,011	334	52	6,275	3,063
Dividends from Component Units	25,444	17,919	-	-	25,444	17,919
Grants and contributions not restricted to specific programs	78,849	62,015	-	-	78,849	62,015
Miscellaneous	1,199	898	69	-	1,268	898
Equity interest in joint venture	-	184	-	-	-	184
Gain/(loss) on disposals	-	-	72	-	72	-
Total revenues	<u>245,398</u>	<u>208,601</u>	<u>2,331</u>	<u>3,348</u>	<u>247,729</u>	<u>211,949</u>
<b>Expenses:</b>						
Tribal government	16,433	17,023	-	-	16,433	17,023
Health Services	87,061	79,344	-	-	87,061	79,344
Education Services	36,588	33,429	-	-	36,588	33,429
Human Services	27,307	24,824	-	-	27,307	24,824
Community Services	42,867	35,060	-	-	42,867	35,060
Other Tribal Services	12,712	10,623	-	-	12,712	10,623
Interest on long-term debt	1,975	1,651	-	-	1,975	1,651
Total governmental expenses	<u>224,943</u>	<u>201,954</u>	<u>-</u>	<u>-</u>	<u>224,943</u>	<u>201,954</u>
Tsa-La-Gi Village Apartments			390	352	390	352
Landfill Operations			1,794	2,252	1,794	2,252
EDTA			182	127	182	127
Childhood Development Centers			-	1,048	-	1,048
Other Enterprises	-	-	7	15	7	15
Total business-type expenses	<u>-</u>	<u>-</u>	<u>2,373</u>	<u>3,794</u>	<u>2,373</u>	<u>3,794</u>
Increase in net assets before transfers	20,455	6,647	(42)	(446)	20,413	6,201
Transfers	43	(2,889)	(43)	1,901	-	(988)
Change in net assets	20,498	3,758	(85)	1,455	20,413	5,213
Net assets—Beginning of year	<u>119,418</u>	<u>115,660</u>	<u>5,158</u>	<u>3,703</u>	<u>124,576</u>	<u>119,363</u>
Net assets—End of year	<u>\$ 139,916</u>	<u>\$ 119,418</u>	<u>\$ 5,073</u>	<u>\$ 5,158</u>	<u>\$ 144,989</u>	<u>\$ 124,576</u>

As indicated earlier in this report, the increase in net assets in 2006 is largely attributable to the increase in capital assets, net of related debt. The Nation has invested approximately \$13 million in new construction projects, including the Sequoyah multi-purpose center and three health clinics.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

The Nation's capital assets, net of depreciation, at the end of fiscal year 2006 were \$63 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, 2006

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land and improvements	\$ 10,715	\$ 81	\$ 10,796
Construction in Progress	19,496	-	19,496
Buildings and improvements	19,416	6,226	25,642
Equipment	<u>6,816</u>	<u>454</u>	<u>7,270</u>
Total capital assets	<u>\$ 56,443</u>	<u>\$ 6,761</u>	<u>\$ 63,204</u>

Additional information on the Nation's capital assets can be found in Note 8 on pages 54 - 56 of this report.

The Nation's long-term debt at the end of fiscal year 2006 was approximately \$41 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, 2006 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Notes payable	\$ 36,258	\$ 3,647	\$ 39,905
Capital leases payable	600	-	600
Total long-term debt	<u>\$ 36,858</u>	<u>\$ 3,647</u>	<u>\$ 40,505</u>

The Nation, as a tribal government, has the ability to incur debt, similar to a state and local government. The Nation entered into an agreement with Bank One, guaranteed by the United States Department of Housing and Urban Development's Title VI program. The purpose of the credit facility was to loan money to the HACN who, in turn, used the money in the building of affordable housing for Tribal citizens. As of September 30, 2006, borrowings under this credit facility totaled approximately \$28,202,000.

Additional information on the Nation's long-term debt can be found in Note 9 on pages 57 - 62 of this report.

## SIGNIFICANT BUDGET VARIATIONS

The Nation's significant General Fund budget variations in 2006 were as follows (in thousands):

	Original Budget	Final Budget	Variance Increase/ (Decrease)	Percentage Increase/ (Decrease)	Actual		Variance Increase/ (Decrease)	Percentage Increase/ (Decrease)
<b>Revenues:</b>								
Taxes, licenses, and fees	10,299	12,587	2,288	22%	17,458	(1)	4,871	39%
Interest	1,300	1,396	96	7%	2,546	(2)	1,150	82%
Indirect cost settlement	-	-	-	-	2,201	(3)	2,201	
Dividends from component unit	18,600	23,000	4,400	24%	25,444	(4)	2,444	11%
<b>Expenditures</b>								
Tribal government	14,767	17,291	2,524	17%	10,543	(5)	(6,748)	(39%)
Member services	29,360	40,117	10,757	37%	24,884	(6)	(15,233)	(38%)
Capital outlay	4,651	5,825	1,174	25%	3,184	(7)	(2,641)	(45%)

The Nation's Tribal Council approves a comprehensive annual budget prior to the beginning of the fiscal year. During the year, budget modifications are submitted to Council based on changes in levels of actual revenue and expenses. The increase in Taxes, Licenses and fees is primarily the result of new legislation passed during 2006 adding a tobacco surtax. The increase in budgeted dividends from component units is the result of increased profit at Cherokee Nation Enterprises, LLC.

Variances between actual and final budget are as follows:

- (1) Taxes and fees generated approximately \$2.8 million more than anticipated in the budget, primarily from tobacco taxes. Motor vehicle licenses revenue exceeded budget by approximately \$2.1 million partially attributable to the addition of additional tag offices throughout the Nation's jurisdictional area.
- (2) Interest income was greater than budget, primarily due to increases in investment rates during 2006.
- (3) The indirect cost settlement was not anticipated in the budgeted revenues for 2006.
- (4) Component units are generally subject to a dividend based on net income. Dividends from component units were higher due to increased profits.
- (5) Expenditures for Tribal Government were less than budget primarily as a result of Contingencies reserves and Cash match for grants which were budgeted, but not expended. Communications projects expenditures totaling \$1.2 million were delayed due to timing.
- (6) Expenditures for Member Services were less than budget primarily as a result of timing on several projects.
- (7) Capital outlays were less than budget due to timing on land acquisitions.

## **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. Health Services facilities are under construction in Sallisaw, Nowata and Muskogee. The health construction projects are being funded, in part, through the Nation's 2006 Health Care System Series 2006 Bond's which were issued in December, 2006. The debt service for these bonds will be funded from third party revenue from the health clinic operations. Community Services will continue to provide affordable housing for Tribal citizens through housing rehabilitation, mortgage assistance programs and rental subsidies. Budgeted expenditures and transfers for the Nation's General Fund for fiscal year 2007 total \$88 million, approximately \$.2 million more than the final amounts budgeted for fiscal year 2006.

During 2006, there were significant new entries to the gaming market in Oklahoma City as well as expansions completed along the Oklahoma and Texas borders. While these additions to the market are not direct competitors, they do offer competition for the regional customer. Announcements and groundbreaking by other tribes in the Tulsa market provide direct competition for the Nation's Catoosa casino operated by Cherokee Nation Enterprises, LLC ("CNE"). To address the competitive factors, CNE has begun an aggressive growth and development strategy for its flagship properties. Expansion plans have been announced for Roland, West Siloam Springs and Catoosa with these developments coming on line in 2008 and 2009. In addition to expansions, CNE also continues its innovative approach to offering the newest gaming options available as well as development of proprietary games. CNE has also started initiatives to improve loyalty within its existing customer base including targeted marketing and rewards programs.

## **CONTACTING THE NATION'S FINANCIAL MANAGEMENT**

This financial report is designed to provide a general overview of the Nation's finances to its citizens, customers, creditors, and other interested parties. 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.

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# BASIC FINANCIAL STATEMENTS

# GOVERNMENT-WIDE FINANCIAL STATEMENTS



**CHEROKEE NATION**

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

(Dollars in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 163,139	\$ 1,840	\$ 164,979	\$ 74,981
Investments	15,801	-	15,801	28,525
Accounts receivable, net	14,295	718	15,013	22,220
Interest receivable	-	-	-	487
Mortgages receivable, Title VI and partnerships, current	-	-	-	557
Due from other funds - Internal Balances	2,138	(2,138)	-	-
Due from primary government	-	-	-	1,265
Inventories	777	-	777	10,208
Refundable income taxes	-	-	-	477
Prepaid expenses	-	-	-	367
Notes receivable	2,003	238	2,241	2,098
Deferred income taxes	-	-	-	637
Other current assets	1,409	2	1,411	2,683
Restricted cash, cash equivalents and investments	22,054	2,050	24,104	13,420
Long-term notes receivable	26,194	1,606	27,800	1,287
Long-term mortgages receivable, Title VI and partnerships	-	-	-	27,556
Other assets	78	-	78	901
Investment in joint ventures/partnerships	-	-	-	2,040
Capital assets, non depreciable	30,318	81	30,399	45,189
Capital assets, depreciable, net	26,125	6,680	32,805	191,876
<b>Total assets</b>	<b>304,331</b>	<b>11,077</b>	<b>315,408</b>	<b>426,774</b>
<b>Liabilities</b>				
Outstanding checks in excess of bank balance	-	-	-	1,984
Accounts payable and accrued liabilities	15,063	49	15,112	45,246
Due to component units	1,265	-	1,265	-
Compensated absences	3,884	-	3,884	-
Other current liabilities	2,558	18	2,576	-
Unearned revenue	677	300	977	-
Unearned grant revenue	104,110	-	104,110	-
Notes payable and long-term debt				
Due within one year	4,691	312	5,003	2,517
Due in more than one year	31,567	3,335	34,902	35,402
Capital leases				
Due within one year	348	-	348	-
Due in more than one year	252	-	252	-
Trust liabilities	-	-	-	10,775
Deferred income taxes	-	-	-	76
Other noncurrent liabilities	-	1,990	1,990	-
<b>Total liabilities</b>	<b>164,415</b>	<b>6,004</b>	<b>170,419</b>	<b>96,732</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	47,627	4,653	52,280	231,798
Restricted for				
Motor vehicle tax	5,255	-	5,255	-
Tobacco surtax	2,203	-	2,203	-
Permanent Funds - expendable	102	-	102	-
Permanent Funds - nonexpendable	425	-	425	-
Judgment funds - nonexpendable	2,734	-	2,734	-
Construction	972	-	972	-
Arkansas River Drybed Lands Settlement	1,578	-	1,578	-
Debt service	-	-	-	2,528
Program services	9,981	-	9,981	22,258
Unrestricted net assets	69,039	420	69,459	71,958
<b>Total net assets</b>	<b>\$ 139,916</b>	<b>\$ 5,073</b>	<b>\$ 144,989</b>	<b>\$ 330,042</b>

See notes to basic financial statements

**CHEROKEE NATION**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2006  
(Dollars in Thousands)**

Functions/Programs	Program Revenues				Net (Expenses) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
<b>Primary Government:</b>								
Governmental activities:								
Tribal Government	\$ 16,433	\$ 4	\$ 1,624	\$ 323	\$ (14,482)	\$ -	\$ (14,482)	\$ -
Health Services	87,061	-	31,376	-	(55,685)	-	(55,685)	-
Education Services	36,588	-	25,709	-	(10,879)	-	(10,879)	-
Human Services	27,307	-	21,695	-	(5,612)	-	(5,612)	-
Community Services	42,867	-	24,085	-	(18,782)	-	(18,782)	-
Other Tribal Services	12,712	2,572	3,688	88	(6,364)	-	(6,364)	-
Interest on long-term debt	1,975	-	-	-	(1,975)	-	(1,975)	-
Total governmental activities	224,943	2,576	108,177	411	(113,779)	-	(113,779)	-
Business-type activities:								
Tsa-La-Gi Apartments	390	492	-	-	-	102	102	-
Landfill Operations	1,794	1,216	-	-	-	(578)	(578)	-
EDTA	182	23	119	-	-	(40)	(40)	-
Other Enterprises	7	6	-	-	-	(1)	(1)	-
Total business-type activities	2,373	1,737	119	-	-	(517)	(517)	-
Total primary government	\$ 227,316	\$ 4,313	\$ 108,296	\$ 411	(113,779)	(517)	(114,296)	-
<b>Component Units:</b>								
Housing Authority of the Cherokee Nation ("HACN")	\$ 29,657	\$ 6,367	\$ 20,003	\$ -	-	-	-	(3,287)
Cherokee Nation Comprehensive Care Agency ("CNCCA")	90	-	832	-	-	-	-	742
Cherokee Nation Industries Inc. ("CNI")	99,101	99,059	-	-	-	-	-	(42)
Cherokee Nation Businesses, LLC ("CNB")	295,038	353,417	-	-	-	-	-	58,379
Cherokee Nation Home Health Services, Inc. ("CNHHS")	3,172	3,106	-	-	-	-	-	(66)
Total component units	\$ 427,058	\$ 461,949	\$ 20,835	\$ -	-	-	-	55,726
<b>General Revenues:</b>								
Motor fuel tax	-	-	-	-	7,406	-	7,406	-
Motor vehicle tax	-	-	-	-	7,188	-	7,188	-
Tobacco tax	-	-	-	-	7,063	-	7,063	-
Sales tax	-	-	-	-	1,144	-	1,144	-
Grants and contributions not restricted to specific programs	-	-	-	-	78,849	-	78,849	-
Unrestricted investment earnings	-	-	-	-	5,941	334	6,275	4,513
Dividends from component units	-	-	-	-	25,444	-	25,444	-
Miscellaneous revenue	-	-	-	-	1,199	69	1,268	322
Gain/(loss) on investments in joint venture	-	-	-	-	-	-	-	(580)
Loss on investment in equity investees	-	-	-	-	-	-	-	(4,560)
Gain/(loss) on disposals	-	-	-	-	-	72	72	345
Transfers	-	-	-	-	43	(43)	-	-
Capital contributions	-	-	-	-	-	-	-	-
Total general revenues and transfers	-	-	-	-	134,277	432	134,709	40
Change in net assets	-	-	-	-	20,498	(85)	20,413	55,766
Net assets, beginning	-	-	-	-	119,418	5,158	124,576	274,276
Net assets, ending	\$ 139,916	\$ 5,073	\$ 144,989	\$ 330,042	-	-	-	-

See notes to basic financial statements

# FUND FINANCIAL STATEMENTS

**CHEROKEE NATION**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2006

(Dollars in Thousands)

	<u>General</u>	<u>Self Governance DOI Roads</u>	<u>Self Governance DHHS</u>	<u>Housing &amp; Urban Development</u>	<u>Sequoyah Education</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>							
Cash and cash equivalents	\$ 26,726	\$ 29,820	\$ 21,699	\$ 37,564	\$ 15,578	\$ 30,591	\$ 161,978
Investments	-	7,417	-	-	-	8,384	15,801
Receivables, net	5,676	52	401	3	-	2,753	8,885
Due from other funds	32,868	-	-	1,055	-	2,458	36,381
Due from component units	-	-	-	-	-	-	-
Inventories	14	-	-	-	-	652	666
Notes receivable	-	-	-	-	-	149	149
Other current assets	164	-	634	-	-	448	1,246
Restricted cash, cash equivalents and investments	18,915	-	-	-	-	2,140	21,055
<b>Total assets</b>	<u>\$ 84,363</u>	<u>\$ 37,289</u>	<u>\$ 22,734</u>	<u>\$ 38,622</u>	<u>\$ 15,578</u>	<u>\$ 47,575</u>	<u>\$ 246,161</u>

**LIABILITIES AND FUND BALANCES**

**LIABILITIES:**

Accounts payable and accrued liabilities	\$ 7,919	\$ 5	\$ 2,141	\$ -	\$ -	\$ 993	\$ 11,058
Due to other funds	3,585	1,919	9,698	-	1,377	15,021	31,600
Due to component units	-	-	-	1,238	-	27	1,265
Other current liabilities	1	-	-	-	-	544	545
Deferred grant revenue	-	35,365	3,198	37,384	13,460	14,703	104,110
Deferred revenue	-	-	-	-	-	677	677
<b>Total liabilities</b>	<u>11,505</u>	<u>37,289</u>	<u>15,037</u>	<u>38,622</u>	<u>14,837</u>	<u>31,965</u>	<u>149,255</u>

**FUND BALANCES:**

<b>Fund balance:</b>							
Reserved for debt service							
Reserved by Legislative Act (Note 12):							
Motor fuel tax	24,674	-	-	-	-	-	24,674
Cash reserve	1,256	-	-	-	-	-	1,256
Tobacco retailers loan fund	1,000	-	-	-	-	-	1,000
Arkansas Riverbed settlement	1,894	-	-	-	-	-	1,894
Tribal judgements and trusts	-	-	-	-	-	9,653	9,653
Reserved by external sources and enabling legislation:							
Grant programs	-	-	7,697	-	741	1,543	9,981
Motor vehicle tax	5,255	-	-	-	-	-	5,255
Tobacco surtax	2,203	-	-	-	-	-	2,203
Permanent funds	-	-	-	-	-	527	527
Judgment funds	-	-	-	-	-	4,312	4,312
Unreserved (Note 12)	36,576	-	-	-	-	(524)	36,052
<b>Total fund balances</b>	<u>72,858</u>	<u>-</u>	<u>7,697</u>	<u>-</u>	<u>741</u>	<u>15,610</u>	<u>96,906</u>
<b>Total liabilities and fund balances</b>	<u>\$ 84,363</u>	<u>\$ 37,289</u>	<u>\$ 22,734</u>	<u>\$ 38,622</u>	<u>\$ 15,578</u>	<u>\$ 47,575</u>	

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.

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.

Net assets of governmental activities

\$ 139,916

CHEROKEE NATION

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
 GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006  
 (Dollars in Thousands)

	General	Self Governance DOI Roads	Self Governance DHHS	Housing & Urban Development	Sequoyah Education	Other Governmental Funds	Total Governmental Funds
<b>Revenues:</b>							
Intergovernmental	\$ -	\$ 10,844	\$ 56,785	\$ 22,889	\$ 5,973	\$ 69,761	\$ 166,252
Property rentals	513	-	-	-	-	-	513
Motor fuel tax revenues	7,406	-	-	-	-	-	7,406
Tax and license revenues	17,458	-	-	-	-	-	17,458
Interest	2,546	690	1,251	1,334	384	3,446	9,651
Trust fund income	104	-	-	-	-	-	104
Indirect cost settlement	2,201	-	-	-	-	-	2,201
Dividends from component units	25,444	-	-	-	-	-	25,444
Other	1,378	2	12,854	5	28	7,935	22,202
<b>Total revenues</b>	<b>57,050</b>	<b>11,536</b>	<b>70,890</b>	<b>24,228</b>	<b>6,385</b>	<b>81,142</b>	<b>251,231</b>
<b>Expenditures:</b>							
<b>Current operating:</b>							
Tribal Government	\$10,543	-	403	1,043	-	3,040	15,029
Health Services	5,315	-	60,880	-	-	18,333	84,528
Education Services	6,447	-	-	488	6,461	22,392	35,788
Human Services	1,524	-	-	1,079	-	24,236	26,839
Community Services	5,245	10,750	3,567	21,068	-	1,790	42,420
Other tribal services	6,353	-	39	480	-	4,917	11,789
<b>Debt services:</b>							
Principal	263	-	-	-	-	2,854	3,117
Interest	71	-	-	-	-	1,748	1,819
Capital outlay	3,184	17	674	34	7	14,246	18,162
<b>Total expenditures</b>	<b>38,945</b>	<b>10,767</b>	<b>65,563</b>	<b>24,192</b>	<b>6,468</b>	<b>93,556</b>	<b>239,491</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>18,105</b>	<b>769</b>	<b>5,327</b>	<b>36</b>	<b>(83)</b>	<b>(12,414)</b>	<b>11,740</b>
<b>Other financing sources (uses):</b>							
Issuance of long-term debt	-	-	-	-	-	4,260	4,260
Fees associated with debt issuance	-	-	-	-	-	128	128
Insurance recoveries	10	-	-	-	12	5	27
Transfers in	6,229	-	50	67	426	10,653	17,425
Transfers out	(10,453)	(1,352)	(2,984)	(103)	-	(3,028)	(17,920)
<b>Total other financing sources (uses)</b>	<b>(4,214)</b>	<b>(1,352)</b>	<b>(2,934)</b>	<b>(36)</b>	<b>438</b>	<b>12,018</b>	<b>3,920</b>
<b>Net change in fund balances</b>	<b>13,891</b>	<b>(583)</b>	<b>2,393</b>	<b>-</b>	<b>355</b>	<b>(396)</b>	<b>15,660</b>
<b>Fund balance, October 1, 2005</b>	<b>58,967</b>	<b>583</b>	<b>5,304</b>	<b>-</b>	<b>386</b>	<b>16,006</b>	<b>81,246</b>
<b>Fund balance, September 30, 2006</b>	<b>\$ 72,858</b>	<b>\$ -</b>	<b>\$ 7,697</b>	<b>\$ -</b>	<b>\$ 741</b>	<b>\$ 15,610</b>	<b>\$ 96,906</b>

See notes to basic financial statements

# CHEROKEE NATION

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2006 (Dollars in Thousands)

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

Net change in fund balances - total governmental funds	\$ 15,660
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.	16,266
Movement of equity of joint venture to a discretely presented component unit in the current year that was recorded in the government-wide statements in prior years.	(332)
Revenues previously reported in the statement of activities that did not provide current financial resources were not previously reported as revenues in the funds. These revenues are now presented in the fund statements as they become available	(5,858)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(1,271)
Some expenses are reported in the Statement of Activities when incurred and presented in the governmental funds when paid	(330)
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.	(3,637)
Change in net assets of governmental activities	<u>\$ 20,498</u>

See notes to basic financial statements

# CHEROKEE NATION

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL (GAAP BASIS) - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2006  
(Dollars in Thousands)**

	Budgeted Amounts			Variance with Final Budget over/(under)
	Original	Final	Actual	
<b>Revenues:</b>				
Property rentals	\$ 98	\$ 109	\$ 513	\$ 404
Motor fuel tax	7,484	7,484	7,406	(78)
Taxes, licenses, and fees	10,299	12,587	17,458	4,871
Interest	1,300	1,396	2,546	1,150
Trust fund income	60	60	104	44
Indirect cost settlement	-	-	2,201	2,201
Dividends from component units	18,600	23,000	25,444	2,444
Other	1,126	1,954	1,378	(576)
<b>Total revenues</b>	<u>38,967</u>	<u>46,590</u>	<u>57,050</u>	<u>10,460</u>
<b>Expenditures:</b>				
Tribal government	14,767	17,291	10,543	(6,748)
Member services	29,360	40,117	24,884	(15,233)
Capital outlay	4,651	5,825	3,184	(2,641)
Debt service	980	1,128	334	(794)
<b>Total expenditures</b>	<u>49,758</u>	<u>64,361</u>	<u>38,945</u>	<u>(25,416)</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>(10,791)</u>	<u>(17,771)</u>	<u>18,105</u>	<u>35,876</u>
<b>Other financing sources (uses):</b>				
Insurance recoveries	-	-	10	10
Transfers in	13,889	17,823	6,229	(11,594)
Transfers out	(19,094)	(23,355)	(10,453)	12,902
<b>Total other financing sources (uses)</b>	<u>(5,205)</u>	<u>(5,532)</u>	<u>(4,214)</u>	<u>1,318</u>
<b>Excess (deficiency) of revenues and other financing sources over expenditures</b>	<u>(15,996)</u>	<u>(23,303)</u>	<u>13,891</u>	<u>37,194</u>
<b>Fund balance, October 1, 2005</b>	<u>58,967</u>	<u>58,967</u>	<u>58,967</u>	<u>-</u>
<b>Fund balance, September 30, 2006</b>	<u>\$ 42,971</u>	<u>\$ 35,664</u>	<u>\$ 72,858</u>	<u>\$ 37,194</u>

See notes to basic financial statements

**CHEROKEE NATION**

**STATEMENT OF NET ASSETS - PROPRIETARY FUNDS**

SEPTEMBER 30, 2006

(Dollars in Thousands)

	Business-type Activities- Enterprise Funds		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Totals	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,840	\$ 1,840	\$ 1,161
Accounts receivable, net	718	718	241
Due from other funds	72	72	-
Inventories	-	-	111
Notes receivable, current	238	238	-
Other current assets	2	2	163
Total current assets	2,870	2,870	1,676
Noncurrent assets:			
Restricted cash and cash equivalents	2,050	2,050	999
Long-term notes receivable	1,606	1,606	-
Capital assets, net	6,761	6,761	11,646
Total noncurrent assets	10,417	10,417	12,645
Total assets	13,287	13,287	14,321
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	49	49	3,645
Current portion of long-term debt	312	312	476
Current portion of capital leases	-	-	348
Due to other funds	2,210	2,210	2,643
Compensated absences	-	-	3,884
Other current liabilities	18	18	2,013
Total current liabilities	2,589	2,589	13,009
Noncurrent liabilities:			
Unearned revenue	300	300	-
Long-term debt	3,335	3,335	3,058
Capital leases payable	-	-	252
Other liabilities	1,909	1,909	-
Total noncurrent liabilities	5,544	5,544	3,310
Total liabilities	8,133	8,133	16,319
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	4,653	4,653	7,512
Restricted	-	-	972
Unrestricted net assets/(deficit)	501	501	(10,482)
Total net assets/(deficit)	\$ 5,154	5,154	\$ (1,998)
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds		(81)	
Net assets of business-type activities		\$ 5,073	

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, 2006 (Dollars in Thousands)

	Business-type Activities- Enterprise Funds		Governmental Activities- Internal Service Funds
	Nonmajor Enterprise Funds	Totals	
Operating revenues:			
Property rentals	\$ 486	\$ 486	\$ 3
Charges for services and goods	1,222	1,222	59,371
Other	29	29	221
Total operating revenues	1,737	1,737	59,595
Operating expenses:			
Cost of sales	-	-	(4)
Salaries and wages	626	626	50,375
Other services and charges	577	577	10,452
Materials and supplies	18	18	1,655
Depreciation and amortization	969	969	1,347
Total operating expenses	2,190	2,190	63,825
Operating income (loss)	(453)	(453)	(4,230)
Nonoperating revenues (expenses):			
Grant revenues	119	119	-
Interest income	334	334	25
Interest expense	(135)	(135)	(156)
Other sources	69	69	-
Gain/(loss) on sale of capital assets	72	72	138
Net nonoperating revenues (expenses)	459	459	7
Income (loss) before transfers	6	6	(4,223)
Transfers in	91	91	538
Transfers out	(134)	(134)	-
Change in net assets	(37)	(37)	(3,685)
Total net assets - beginning	5,191		1,687
Total net assets - ending	\$ 5,154		\$ (1,998)
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds		(48)	
Change in net assets of business-type activities		\$ (85)	

See notes to basic financial statements

**CHEROKEE NATION**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006  
(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	\$ 1,708	\$ 1,708	\$ 59,374
Payments to suppliers	(648)	(648)	(12,301)
Payments to employees	(626)	(626)	(50,375)
Internal activity, net - payments (to)/from other funds	(669)	(669)	3,070
Program loans	(442)	(442)	-
Other receipts	30	30	1,448
Net cash provided/(used) by operating activities	(647)	(647)	1,216
Cash flows from noncapital financing activities			
Operating subsidies and transfers (to)/from other funds	(43)	(43)	538
Grant revenues	119	119	-
Receipts from other sources	69	69	-
Net cash provided by noncapital financing activities	145	145	538
Cash flows from capital and related financing activities			
Purchases of capital assets	(879)	(879)	(868)
Proceeds from capital debt	1,783	1,783	758
Principal paid on capital debt	(566)	(566)	(1,056)
Interest paid on capital debt	(135)	(135)	(156)
Proceeds from sales of capital assets	72	72	300
Net cash (used) by capital and related financing activities	275	275	(1,022)
Cash flows from investing activities			
Proceeds from sale of investments	11	11	-
Interest and dividends	334	334	25
Net cash provided by investing activities	345	345	25
Net increase (decrease) in cash and cash equivalents	118	118	757
Cash and cash equivalents, October 1, 2005	3,772	3,772	1,403
Cash and cash equivalents, September 30, 2006	\$ 3,890	\$ 3,890	\$ 2,160
Cash and Cash Equivalents consist of:			
Unrestricted cash and cash equivalents	\$ 1,840	\$ 1,840	\$ 1,161
Restricted cash and cash equivalents	2,050	2,050	999
	\$ 3,890	\$ 3,890	\$ 2,160
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (453)	\$ (453)	\$ (4,230)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	969	969	1,347
Change in assets and liabilities:			
Receivables, net	(862)	(862)	1,880
Inventories	-	-	7
Other current assets	-	-	9
Accounts and other payables	(301)	(301)	2,203
Net cash provided by (used for) operating activities	\$ (647)	\$ (647)	\$ 1,216

See notes to basic financial statements

**CHEROKEE NATION**

**COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS**

SEPTEMBER 30, 2006 (JUNE 30, 2006 for CNI)

(Dollars in Thousands)

	Housing Authority of the Cherokee Nation (HACN)	Cherokee Nation Comprehensive Care Agency (CNCCA)	Cherokee Nation Industries Inc. (CNI)	Cherokee Nation Businesses LLC (CNB)	Cherokee Nation HomeHealth Services, Inc. (CNHHS)	Total
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 8,038	\$ 491	\$ 549	\$ 65,714	\$ 189	\$ 74,981
Restricted cash	-	-	-	1,960	-	1,960
Investments	13,527	-	-	14,998	-	28,525
Receivables, net	809	-	16,514	4,476	421	22,220
Interest receivable	487	-	-	-	-	487
Mortgages receivable-Title VI	557	-	-	-	-	557
Due from primary government	1,265	-	-	-	-	1,265
Inventories	675	-	7,688	1,845	-	10,208
Refundable income taxes	-	-	477	-	-	477
Prepaid Expenses	199	-	157	-	11	367
Notes receivable	-	-	-	2,098	-	2,098
Deferred income taxes	-	-	637	-	-	637
Other current assets	173	-	-	2,510	-	2,683
Total current assets	25,730	491	26,022	93,601	621	146,465
Restricted investments	11,460	-	-	-	-	11,460
Notes receivable	146	-	-	1,141	-	1,287
Mortgages receivable-Title VI and partnerships	27,556	-	-	-	-	27,556
Other assets	641	-	260	-	-	901
Investment in partnerships/joint ventures	1,380	472	-	188	-	2,040
Capital assets, net	83,828	-	882	151,827	528	237,065
Total assets	150,741	963	27,164	246,757	1,149	426,774
<b>LIABILITIES</b>						
Current liabilities:						
Outstanding checks in excess of bank balance	-	-	1,984	-	-	1,984
Accounts payable and accrued liabilities	1,215	12	7,392	36,419	208	45,246
Current portion of long-term debt	-	-	478	-	179	657
Deferred revenue	701	-	-	-	22	723
Current portion of notes payable	1,860	-	-	-	-	1,860
Other current liabilities	9	-	-	-	-	9
Total current liabilities	3,785	12	9,854	36,419	409	50,479
Long-term debt	-	-	8,709	-	359	9,068
Trust Liabilities	10,775	-	-	-	-	10,775
Notes Payable	26,334	-	-	-	-	26,334
Deferred income taxes	-	-	76	-	-	76
Total liabilities	40,894	12	18,639	36,419	768	96,732
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	83,681	-	882	147,102	133	231,798
Restricted for:						
Debt service	2,528	-	-	-	-	2,528
Construction	-	-	-	1,500	-	1,500
Program services	22,258	-	-	-	-	22,258
Unrestricted net assets	1,380	951	7,643	61,736	248	71,958
Total net assets (deficit)	\$ 109,847	\$ 951	\$ 8,525	\$ 210,338	\$ 381	\$ 330,042

See notes to basic financial statements

**CHEROKEE NATION**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
COMPONENT UNITS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006 (Year ended June 30, 2006 for CNI)  
(Dollars in Thousands)**

	Housing Authority of the Cherokee Nation (HACN)	Cherokee Nation Comprehensive Care Agency (CNCCA)	Cherokee Nation Industries Inc. (CNI)	Cherokee Nation Businesses LLC (CNB)	Cherokee Nation HomeHealth Services, Inc. (CNHHS)	Total
Operating revenues:						
Charges for services and goods	\$ 6,367	\$ -	\$ 99,059	\$ 353,417	\$ 3,106	\$ 461,949
Gain (loss) on investments in joint ventures	-	208	-	(788)	-	(580)
Other	386	-	-	-	4	390
Total operating revenues	6,753	208	99,059	352,629	3,110	461,759
Operating expenses:						
Cost of sales/operations	10,995	8	87,054	84,320	-	182,377
Salaries and wages	5,019	36	-	104,042	2,213	111,310
Housing assistance	6,037	-	-	-	-	6,037
Other services and charges	802	46	11,430	64,526	926	77,730
Depreciation and amortization	5,060	-	-	16,215	17	21,292
Total operating expenses	27,913	90	98,484	269,103	3,156	398,746
Operating income (loss)	(21,160)	118	575	83,526	(46)	63,013
Nonoperating revenues (expenses)						
Grant revenue	20,003	-	-	-	-	20,003
Funding provided by primary government	-	832	-	-	-	832
Interest/investment income	2,120	1	27	2,358	7	4,513
Interest expense	(1,744)	-	(774)	(80)	(16)	(2,614)
Loss on investment in equity investees	-	-	(4,560)	-	-	(4,560)
Allowance for uncollectible accounts	-	-	-	-	-	-
Debt forgiveness	-	-	-	-	-	-
Gain/(loss) on disposal of assets	807	-	-	(462)	-	345
Other, net	-	-	(61)	(7)	-	(68)
Net nonoperating revenues (expenses)	21,186	833	(5,368)	1,809	(9)	18,451
Income (loss) before income taxes	26	951	(4,793)	85,335	(55)	81,464
Income tax benefit (expense)	-	-	157	-	-	157
Net Income (loss)	26	951	(4,636)	85,335	(55)	81,621
Dividends to primary government	-	-	-	(25,444)	-	(25,444)
Capital grants to primary government	-	-	-	(411)	-	(411)
Change in net assets	26	951	(4,636)	59,480	(55)	55,766
Net assets, beginning of year	109,821	-	13,161	150,858	436	274,276
Net assets, end of year	\$ 109,847	\$ 951	\$ 8,525	\$ 210,338	\$ 381	\$ 330,042

See notes to basic financial statements

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# NOTES TO BASIC FINANCIAL STATEMENTS

**CHEROKEE NATION  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2006.**

**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," as amended by GASB No. 39, 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. Part of the determination for presenting them as discretely presented component units is that they do not have substantially the same governing body as the primary government nor do they provide services entirely or almost entirely to the primary government or for the benefit of the primary government. The following component units are included in the reporting entity because the primary government is financially accountable for and is able to impose its will on these organizations.

**Housing Authority of the Cherokee Nation of Oklahoma** — The Housing Authority of the Cherokee Nation of Oklahoma ("HACN") was created under the provisions of the laws of the State of Oklahoma and provides affordable housing and other services to low income Native Americans within the boundaries of the Nation. Effective October 1, 1997, the Native American Housing Assistance and Self-Determination Act ("NAHASDA") was implemented. The purpose of NAHASDA is to provide Federal assistance for Indian tribes in a manner that recognizes the right of Indian self-determination and tribal self governance. The Commissioners of the Housing Authority are nominated by the Principal Chief and confirmed by the Council of the Cherokee Nation. In September 2000, the Tribal Council of the Nation approved a legislative act that resulted in the Nation becoming the direct recipient of Department of Housing and Urban Development ("HUD")

funds formerly received directly by the HACN. Concurrent with this legislative act, the Nation and the HACN entered into a memorandum of understanding (“MOU”) whereby the Nation agreed to pass through to the HACN a significant portion of the NAHASDA grant funds received by the Nation from HUD. Under the MOU, the Nation is responsible for oversight and compliance of the funds passed through to the HACN. As a result, HACN is considered to be a component unit of the Nation.

**Cherokee Nation Business, LLC** — Cherokee Nation Business, LLC. (“CNB”), a tribal limited liabilities company, was created June 16, 2004, to provide shared services and strategic coordination to the Nation’s business entities and to diversify the Nation’s business holdings and act as a holding corporation for certain Nation investments in business enterprises. The Nation created CNB and is able to exert significant influence over CNB’s activities as a result of its relationship to CNB and board member appointments. As of September 30, 2006, CNB held an interest in the following entities:

***Cherokee Nation Enterprises, LLC (“CNE”)*** — CNE is a limited liability company organized under the laws of the Cherokee Nation (the Nation). The Nation conducts all of its gaming and entertainment activities through CNE. Prior to July 14, 2006, CNE was a wholly owned tribal corporation of the Nation. On that date, CNE was converted from a corporation to a tribal limited liability company, and ownership was transferred from the Nation to CNB. For reporting purposes, CNE is included as a blended component unit of CNB which is a discrete component unit of the Nation. CNE operates six casinos, a horse racing facility with electronic gaming machines, two retail smoke shop facilities that include electronic gaming machines and other retail facilities including an additional smoke shop, convenience stores and gift shops. CNE’s gaming and entertainment operations include food and beverage venues, hotels and motels, live entertainment venues and an 18-hole golf course. CNE is managed through a board of directors appointed by the Principal Chief of the Nation and approved by the Cherokee Nation Tribal Council. CNE has two of its own blended component units as follows:

***Will Rogers Downs, LLC (WRD)*** — WRD is a limited liability company organized under the laws of the Cherokee Nation created to own and operate a horse racing and gaming facility and ancillary activities on nontribal lands in Claremore, Oklahoma. CNE is the sole member owning 100% of the units of WRD. The president of CNE is the designated manager of WRD. Based on the foregoing criteria and in compliance with the provisions of Governmental Accounting Standards Board (GASB) No. 14, *The Financial Reporting Entity*, WRD is included as a blended component unit in CNE’s financial statements. Pursuant to the Act, WRD commenced electronic gaming and simulcast wagering operations in December 2005. In addition, WRD held its first live race meet during 2006. Prior to that time, WRD had limited operating activities. Separately issued financial statements with additional disclosures may be obtained from CNE’s corporate office.

***Cherokee Hotels, LLC (CHL)*** — CHL is a limited liability company, created on May 23, 2006, under the laws of the Cherokee Nation to own and operate two motels in Catoosa and Roland, Oklahoma. CNE is the sole member owning 100% of the units of CHL. The president of CNE is the designated manager of CHL. Based on the foregoing criteria and in compliance with the provisions of Governmental Accounting Standards Board (GASB) No. 14, *The Financial Reporting Entity*, CHL is included as a blended component unit in CNE’s financial statements.

***Cherokee Technologies, LLC (“CT”)*** — CT is a limited liability company organized, on June 16, 2004, under the laws of the Nation created to facilitate CNB’s ownership in Cherokee Connex, LLC. CNB is the sole member owning 100% of the units of CT, which is included in CNB’s financial statements as a blended component unit.



***Cherokee Services Group, LLC (“CSG”)*** — CSG is a limited liability company organized under the laws of the Nation in 2006 for the purpose of marketing certain professional services to commercial enterprises, other tribes and state and federal governments. CSG has applied for and received 8(a) certification from the US Small Business Administration. CNB is the sole member of CSG which is included as a blended component unit of CNB. CSG had no operating activity for 2006.

CNB either directly or through its blended component units also holds a joint venture interest in two entities as follows:

***Cherokee Connex, LLC (“Connex”)*** — CT’s joint venture, was organized on June 18, 2004 to provide wireless internet services in the Tulsa, Oklahoma market and surrounding areas. Connex is governed by the member managers, who consist of: CT, (51% ownership) and other nongovernmental investors (49% ownership) of Connex. CNB accounts for Connex using the equity method.

***Cherokee CRC, LLC (“CCRC”)*** — CNB’s joint venture, was formed in March, 2005 in Tulsa, Oklahoma, by CNB (51% ownership) and an individual (49% ownership). CNB accounts for the investment in CCRC using the equity method. The targeted business of CCRC, a Tribal-owned 8(a) firm is to engage in the business of providing services to customers in the business described in the North American Industry Classification Codes 54162 (Environmental Consulting Services), 541330 (Engineering Services), 562910 (Remediation Services), 541710 (Research and Development in the Physical, Engineering and Life Sciences), 541380 (Testing Laboratories), and for customers in homeland security under governmental contracts in which Section 8(a) status provides a competitive advantage. CNB accounts for CCRC using the equity method.

***Cherokee Nation Industries, Inc., CND, LLC, and Cherokee Medical Services, L.L.C. (collectively “CNI”)*** — The Nation established CNI, and while not directly managing the daily operations, is able to exert significant influence over CNI’s activities as a result of its relationship to CNI and appointment of a majority of CNI’s board members. Although legally separate entities, this group of companies operates under the same management team and board of directors and issues combined financial statements. CNI engages primarily in the production, assembly, and repair of electronic component parts and wiring systems, and the provisions of certain contract medical services for the U.S. Government. All information included in the Nation’s financial statements for CNI is for the fiscal period ended June 30, 2006.

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

***Cherokee Nation Comprehensive Care Agency*** — The Cherokee Nation Comprehensive Care Agency, (“CNCCA”) was established on January 29, 2004. CNCCA was created to facilitate various Nation health care initiatives including the facilitation of joint ventures and other business related health activities. CNCCA 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 CNCCA. Cherokee Health Partners, LLC is an imaging center located in the Tahlequah City Hospital. The initial services to be provided are nuclear scans of the bones, heart, and lungs. The Nation through CNCCA has made an initial investment in Cherokee Health Partners, LLC in the amount of \$148,000. Since then CNCCA has recognized its proportionate share of CHP’s earnings and distributions resulting in a carrying value of approximately \$472,000 for the joint venture at September 30, 2006. Prior to 2006 CNCCA was generally inactive and accounted for as a blended component unit. Upon

reconsideration in 2006, the Nation concluded that CNCCA should be reflected as a discretely presented component unit.

The financial statements for the discretely presented proprietary component units are presented as part of the accompanying basic financial statements. Selected disclosures for the discretely presented component units have been included in these notes to the basic financial statements. Separately issued audited financial statements with additional disclosures may be obtained for HACN, CNB, CNI, and CNHHS from the Cherokee Nation Controller's office.

**Blended Component Units** – A component unit whose operations are intertwined with those of the primary government are blended with the financial data of the primary government. There is no distinction between the data of the primary government and that of the component unit. The Nation's blended component units are as follows:

**Cherokee Nation Economic Development Trust Authority** – The Economic Development Trust Authority ("EDTA"), a Community Development Financial institution, is certified by the U.S. Treasury Department. Cherokee Nation EDTA was created by Tribal Council Legislative Act 36-89 as a mechanism to promote economic development. Its mission is to provide opportunities for income generation through economic development, to provide loans for business creation/expansion, and to provide loans to qualified individuals whom have traditionally been denied through conventional lending sources. EDTA is presented as a proprietary fund in the accompanying financial statements.

**Excluded Organizations** — During 2006, the following organizations did not meet the criteria for inclusion in the reporting entity, and accordingly their financial operations are excluded from this report.

Cherokee Nation Education Foundation

Cherokee National Historical Society

In fiscal year 2006, the Nation, CNE and the Cherokee National Historical Society entered into an operations management Memorandum of Agreement. This event is discussed more fully in Note 16.

Cherokee Nation law requires that all corporations, majority owned by the Nation, and incorporated under Cherokee Nation law pay a dividend based on net income. The dividend rate was 25% for the first quarter of FY2006 and 30% for the last three quarters of FY2006. Dividends paid to the Nation and other related party transactions are discussed in Note 16.

## 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 or funds designated as major at the discretion of the Nation. Funds not classified as a major fund are aggregated and presented in a single column in the fund financial statements. The Nation uses the following funds, grouped by fund type.

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

- **General Fund** — The General Fund represents the operating activities of the tribal government. All 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 2006, 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.

- **Sequoyah Education** — Established to account for funds received from the Department of Interior (“DOI”) Bureau of Indian Affairs (“BIA”) to provide education to Native American students. Sequoyah High School is located one-half mile south of the Nation and provides education for ninth through the twelfth grades. These expenditures are generally presented as education 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.
  - **Sequoyah Endowment** — The Sequoyah Endowment was established in fiscal year 1991 by the Louise K. Green-Matthews Grant in Environmental Science in the amount of \$145,000. It was established to foster and encourage Cherokee students of at least one-quarter blood quantum to engage in obtaining a graduate education in Environmental Science or Natural Sciences. The income from the trust is available to provide one to two grants annually. The amount of net appreciation on the investment of the Sequoyah Endowment is \$59,000 which is the available amount reflected in the net assets.
  
  - **Gammon Education Trust** — The Glenn and Faye Gammon Education Trust was established in fiscal year 2001 by a willed contribution of \$290,000 to provide Cherokee higher education scholarships. In accordance with the will, income from the trust is used to provide tuition and related educational, travel and living expenses for Cherokee students with a blood quantum of one-quarter or more. The amount of net appreciation on the investment of the Gammon Education Trust is \$44,000 which is the available amount reflected in the net assets.
  
- **Debt Service Funds** — Debt service funds are used to report resources that are set aside to meet current and future debt service requirements on general long-term debt.
  
- **Capital Projects Funds** — Capital project funds are used to report resources that are used to report major capital acquisition and construction separately from ongoing operational activities.

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and nonmajor funds

aggregated. A reconciliation is presented to summarize the differences in net assets of the governmental fund financial statements and the net assets of the governmental activities in the government-wide financial statements. These differences are further explained in Note 2 to the basic financial statements.

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

- **Internal Service Funds** — Internal service funds are used to report activities which provide goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. The Nation includes services such as internal leases, force accounts, fringe pool, indirect cost pool, and tribal operations’ construction management in these funds. Substantially all internal service funds’ net assets and activities are combined with the governmental activities in the government-wide financial statements. Note disclosures for governmental activities also include related amounts for the internal service funds.
- **Enterprise Funds** — The enterprise funds are proprietary funds that are used to report activities for which a fee is charged to external users. The Nation accounts for its Tsa-La-Gi Apartments, Landfill Operations, Economic Development Trust Authority (“EDTA”) and Other enterprise activities in these funds. None of the Nation’s enterprise funds are reported as major funds.
- **Component Units** — See pages 34 - 37 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. The enterprise fund financial information is presented under the business-type activities columns. A column representing internal service funds is also presented in these statements, with the internal service funds’ net assets and activities combined with the governmental activities in the government-wide financial statements.

## MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

The fund financial statements use either the current financial resources measurement focus or the economic resources measurement focus as appropriate. Governmental funds use the current financial resources measurement focus. This measurement focus is based upon the receipt and disbursement of current available

financial resources rather than upon net income. The measurement focus of the proprietary fund types, the flow of economic resources, is based upon determination of net income, financial position and cash flows.

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

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

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

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

**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.
- CNB's inventories consist primarily of smokeshop, convenience store, gift shop, and gaming inventories and are valued at the lower of cost (FIFO) or market.
- CNI's inventories are valued at the lower of cost (FIFO) or market and consist principally of raw materials and purchased finished goods. Reserves are provided for slow-moving or obsolete inventories.

- HACN, as a result of the operation of the Title VI Loan program primarily, has built or acquired a number of homes in various locations in anticipation of the expected demand for the homes as well as homes for specific homebuyers in accordance with an agreement with them. These homes are presented as inventory by HACN.

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

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

The Cherokee Nation has the ability to request that land owned by the Nation and its component units be placed into trust status with the United States of America in Trust for the Cherokee Nation (“trust status”). If land is accepted into trust status, the Nation and its component units have the ability to continue using the property. Activities such as the Nations gaming activities can only be conducted on land held in trust status. When land goes into trust status, the title to the property is transferred to the Federal Government. Under generally accepted accounting principles this land must be removed from the books of the Nation or its component units since the Nation no longer has title to the land. At September 30, 2006, there were various parcels of land owned by the Nation and its component units that the Nation has requested to be placed into trust status. The cost basis of this property will be written off by the Nation when, and if, the property is accepted into trust status.

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

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

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

## **Taxes**

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

- Tsa-La-Gi Apartments are registered as tribal lands held in trust. As such, it is exempt from the payment of property taxes.
- CNE, a blended component unit of CNB, pays a gaming tax based on the previous year's gross revenues pursuant to provisions of the National Indian Gaming Regulatory Act. Amounts owed under the gaming tax are paid to the National Indian Gaming Commission ("NIGC") and have been reflected within operating expenses in the Statement of Revenues, Expenses, and Changes in Fund Net Assets. Total payments for fiscal year 2006 were approximately \$112,000.

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

Upon request from the employee and approval by the supervisor and Human Resources, the Cherokee Nation annually buys back designated amounts of accrued annual leave from Regular/Full Time and Regular/Part Time employees, subject to restrictions based on funding agency guidelines as well as fund availability. In Fiscal Year 2006, the Cherokee Nation bought back \$655,000 of accrued annual leave.

## Net Assets 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. It is the Nation's policy to use restricted net assets prior to the use of unrestricted net assets when both restricted and unrestricted net assets are available for an expense which has been incurred.
3. *Unrestricted net assets* — All other assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

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

**Revenue Recognition** — The Nation considers revenue to be susceptible to accrual in the governmental funds as it becomes measurable and available, as defined under the modified accrual basis of accounting. The Nation defines the availability period for revenue recognition as ninety (90) days. The Nation's major revenue sources that meet this availability criterion are Motor Fuel Tax (MFT), Motor Vehicle Tax revenues and dividends declared by Component Units.



**Program Revenues** — There are two classifications of programmatic revenues for the Nation, grant revenues and program revenue. Grant revenues are revenues from federal, state, and private grants. These revenues are recognized as the related expenditures are made and are reported as intergovernmental revenues. The primary source of program revenue is earned income in connection with the operation of the Nation's clinics and other health-related services, which are funded by the Department of Health and Human Services ("DHHS") Self Governance Compact. Under the provisions of the Self Governance Agreement with DHHS, the Nation is required to expend this program income for purposes similar to those funded by the basic DHHS Self Governance Compact. There are no specific requirements designating when or in what order program and other self governance funds should be spent. Program income earned from clinic and other health-related services during the year ended September 30, 2006 was approximately \$12.9 million.

**Operating and Non-Operating Revenues and Expenses** — In the Proprietary Funds and component units, operating revenues are those revenues produced as a result of providing services and producing and delivering goods, including all transactions and other events. Non-operating revenues are funds primarily provided by investing activities, such as interest income and Federal grants received by HACN. Operating expenses are those expenses related to the production of revenue. Non-operating expenses are those expenses not directly related to the production of revenue, and includes items such as interest expense and losses on disposal of assets.

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

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

**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.

## 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 \$44,797,000 difference are as follows (in thousands):

Capital assets, net	\$ 56,443
Less: Internal service fund capital assets	<u>(11,646)</u>
Capital assets used in governmental activities	<u>\$ 44,797</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.” This \$5,169,000 difference represents the remaining Arkansas River Drybed Lands Settlement receivable.

The final element of that reconciliation, excluding the net assets of the internal service funds of \$1,920,000, explains that “liabilities are not due and payable in the current period and, therefore, not reported in the funds.” The details of this \$5,036,000 difference are as follows (in thousands):

Long-term debt - governmental funds	\$ 4,522
Liability payment for component unit	154
Arkansas River Drybed Lands litigation fee	200
Accounts payable - governmental funds	<u>160</u>
Net Adjustment to decrease fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 5,036</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 \$16,266,000 difference are as follows (in thousands):

Capital expenditures in governmental funds capitalized on government-wide financial statements	\$ 18,162
Depreciation expense	<u>(1,896)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 16,266</u>

The next element of that reconciliation represents the “movement of equity resulting from a joint venture recorded at the government-wide statements in prior years to a discretely presented component unit in the current year.” The \$332,000 reflects the movement of the equity in the joint venture at the beginning of FY2006.

Another element of that reconciliation states that “revenues previously reported in the statement of activities that did not provide current financial resources were not reported as revenues in the funds. These revenues are now presented in the fund statements as they become available.” The details of this \$5,858,000 difference are as follows (in thousands):

Arkansas River Drybed Lands	\$ (803)
Indirect cost settlement	(2,201)
Amount provided from HACN to the Nation for Title VI payment	<u>(2,854)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (5,858)</u>

Another element of that reconciliation states that “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.” The details of this \$1,271,000 difference are as follows (in thousands):

Debt principal payments	\$ 3,117
Proceeds from long term debt - capital projects	<u>(4,388)</u>
Net adjustment to decrease changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ (1,271)</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 \$330,000 difference are as follows (in thousands):

Write down of liability for IDC settlement	\$ (90)
Disallowed cost settlement	100
Arkansas River Drybed Lands litigation fee	(200)
Additional capital outlay expense and loss on disposal	<u>(140)</u>
Net adjustment to increase net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (330)</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, (\$3,637,000) is the net effect of the allocations.”

### **3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

The Internal Service Funds' Force Accounts and Fringe Pool, and the Capital Projects Fund had net deficits of \$102,000, \$9,299,000, and \$524,000 respectively, at September 30, 2006. If the above deficits cannot be recovered in future years through operating revenues, fringe charges to other funds of the Nation, and normal transfers, the General Fund may be required to cover the deficits. During fiscal year 2006, the Nation's construction management services were transferred to CNI, a component unit of the Nation. The accumulated net deficit of construction management in the amount of \$538,524 was covered by a transfer from the General Fund.

### **4. DEPOSITS AND INVESTMENTS**

Custodial credit risk is the risk that in the event of a bank failure, the Nation's deposits may not be returned to it. Cherokee Nation statute requires that funds be deposited in a financial institution insured either by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation. All balances in excess of insurance limits require pledged collateral from the financial institution. All deposits of the primary government were either insured or covered by pledged collateral. Component units' deposits of \$5,254,000 were uninsured and uncollateralized.

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

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Nation manages interest rate risk by maintaining a balance of highly liquid investments and a "ladder" approach to long term investments. Funds are invested in blocks, normally of \$1,000,000 or greater, with maturities ranging from one to five years. Any investment with a maturity date of over five years requires CN Tribal Council approval.

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

Concentration of credit risk is the risk of loss attributed to the magnitude of the Nation's investment in a single issuer. The Nation's investment policy does not specifically address concentration of credit risk. Of the total primary government's investments, \$5,688,000, or 14%, is invested in Freddie Mac and \$4,575,000, or 12%, is invested in Fannie Mae.

Investments, categorized as to interest and credit risk, at September 30, 2006 were as follows (in thousands):

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>					<u>Credit Rating Moody's/S&amp;P</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
Primary Government:						
U.S. Treasuries	\$ 11,468	\$ 4,978	\$ 6,490	\$ -	\$ -	N/A
Government sponsored entities	23,896	13,547	8,778	1,071	500	Aaa/AAA
Commercial paper	81	-	81	-	-	Aaa/AAA
Money Market Mutual funds	3,361	3,361	-	-	-	(1)
<b>Total Primary Government</b>	<b>\$ 38,806</b>	<b>\$ 21,886</b>	<b>\$ 15,349</b>	<b>\$ 1,071</b>	<b>\$ 500</b>	
Component Units:						
Money market funds	\$ 282	\$ 282	\$ -	\$ -	\$ -	(1)
Government Obligations Fund	7,926	7,926	-	-	-	AAA/Aaa
Government sponsored entities	21,462	19,290	2,172	-	-	AAA/Aaa
<b>Total Component Units</b>	<b>\$ 29,670</b>	<b>\$ 27,498</b>	<b>\$ 2,172</b>	<b>\$ -</b>	<b>\$ -</b>	

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

A reconciliation of the investments for the Primary Government presented above to the investments as presented in the statement of net assets follows (dollars in thousands):

Investments as presented above:	\$ 38,806
Plus Certificates of Deposit reported as investments	270
Less investments reported as Restricted Investments	(19,914)
Less Money market funds recorded as Cash & Cash Equivalents	(3,361)
<b>Total investments</b>	<b>\$ 15,801</b>

**Restricted Cash, Cash Equivalents and Investments** — Restricted cash, cash equivalents and investments and reserved cash at September 30, 2006 included the following:

- \$972,000 in unspent loan proceeds in the Internal Leases fund.
- \$221,000 representing tenant security deposits held in trust, replacement reserves and mortgage escrow deposits for Tsa-La-Gi.
- \$1,829,000 relating to the capital replacement and closure and postclosure care costs of the Landfill Operations fund.
- \$27,000 reserved for natural resources replacement.
- \$15,615,000 reflecting the balance in Motor Fuel Tax Education Trust.
- \$3,300,000 relating to the Motor Fuel Tax Scholarship Reserve.
- \$562,000 relating to scholarship funds.

- \$1,578,000 relating to the Arkansas River Drybed Lands Settlement
- \$2,528,000 held in escrow relating to the Title VI loan with a bank (see Note 9).
- \$8,932,000 relating to HACN's lease-to-own homeownership program.
- \$1,500,000 relating to CNB's construction in progress
- \$460,000 relating to pari-mutuel horse racing activities

## 5. RECEIVABLES

Receivables at September 30, 2006 consisted of the following (in thousands):

	<b>Primary Government</b>				
	<b>Grants &amp; Contracts Receivable</b>	<b>Accounts Receivable</b>		<b>Total</b>	<b>Notes Receivable</b>
		<b>Accounts Receivable</b>	<b>Interest Receivable</b>		
<b>Governmental Fund Receivables:</b>					
General					
Motor fuel taxes	\$ -	\$ 1,813	\$ 183	\$ 1,996	\$ -
Other taxes	-	47	-	47	-
Other accounts receivable	-	1,165	-	1,165	-
Dividends receivable from component unit	-	2,468	-	2,468	-
Notes receivable, current	-	-	-	-	1,854
Long term notes receivable	-	-	-	-	26,194
Special Revenue Funds:	<u>2,702</u>	<u>311</u>	<u>196</u>	<u>3,209</u>	<u>149</u>
Receivables recorded in the Government-wide financial statements that are not recorded in the funds:					
Arkansas River Drybed Lands Settlement					
	5,169	-	-	5,169	
Other - Internal Service Funds	<u>-</u>	<u>241</u>	<u>-</u>	<u>241</u>	
Receivables of Governmental Activities	<u>\$ 7,871</u>	<u>\$ 6,045</u>	<u>\$ 379</u>	<u>\$ 14,295</u>	<u>\$ 28,197</u>
<b>Business Type Activities:</b>					
Landfill operations	\$ -	\$ 728	\$ -	\$ 728	\$ -
Notes receivable, current	-	-	-	-	238
Long term notes receivable	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,606</u>
		728	-	728	1,844
Less: Allowance for uncollectible accounts		<u>(10)</u>	<u>-</u>	<u>(10)</u>	
Receivables of Business Type Activities	<u>\$ -</u>	<u>\$ 718</u>	<u>\$ -</u>	<u>\$ 718</u>	<u>\$ 1,844</u>

	Component Units				Total
	HACN	CNI	CNB	CNHHS	
Receivables:					
Accounts	885	17,804	4,476	441	23,606
Interest	487	-	-	-	487
Notes	28,259	-	3,239	-	31,498
Due from primary government	1,265	-	-	-	1,265
	<u>30,896</u>	<u>17,804</u>	<u>7,715</u>	<u>441</u>	<u>56,856</u>
Less: Allowance for uncollectibles	<u>(76)</u>	<u>(1,290)</u>	<u>-</u>	<u>(20)</u>	<u>(1,386)</u>
Receivables, net	<u>\$ 30,820</u>	<u>\$ 16,514</u>	<u>\$ 7,715</u>	<u>\$ 421</u>	<u>\$ 55,470</u>

**Arkansas River Drybed Lands Settlement**— The Arkansas River Drybed 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. The Nation received \$5,699,000 in 2004, \$8,329,000 in 2005, and \$803,000 in 2006. The remaining receivable at September 30, 2006 of \$5,169,000 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 \$1,282,000 in legal fees in connection with this settlement of which \$1,082,000 has been paid. As part of the settlement agreement, the Nation could also be required to pay up to \$2,000,000 of any future settlements made by the federal government with other Native American Indian Tribes. This portion (10%) of the payments received to date of \$1,577,824 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.

**Notes receivable—CNB** — At September 30, 2006, the notes receivable balance for CNB was \$3,238,542. In January 2006, CNE, a component unit of CNB, loaned the Nation \$1,300,000 to be used for expansion of a landfill. The note bears interest of 7% per annum and is paid in monthly installments of \$15,096 beginning January 30, 2006 through December 2007, with all remaining principal and interest due on December 30, 2007. The balance of this note receivable at September 30, 2006, was \$1,238,654. The remainder of \$2,000,000 was a note receivable from Cherokee Connex, LLC.

**Mortgages receivable—Title VI** — HACN has mortgages receivable at September 30, 2006 totaling \$28,112,790 from individuals who are participating in the Title VI loan program. Each of these loans is secured by a mortgage on the house sold by HACN. The loans have an interest rate of 4% and are payable over 30 years. No allowance has been recorded as of September 30, 2006 as the Housing Authority believes the amounts to be collectable or if the houses are required by HACN, the value of the home will equal or exceed the balance of the loan. At September 30, 2006, the current and non-current portions of these mortgages receivable were \$556,823 and \$27,555,967, respectively. The Nation has a reciprocal note receivable from HACN recorded in its Governmental Activities.



**6. INTERFUND BALANCES AND TRANSFERS**

Interfund balances at September 30, 2006 consisted of the following (in thousands):

Due to general fund from:	
Nonmajor enterprise funds	\$ 2,210
Internal service funds	2,643
Self Governance DOI - Roads	1,919
Self Governance DHHS	9,698
Sequoyah Education	1,377
Nonmajor governmental funds	<u>15,021</u>
Total due to general fund from other funds	\$ <u>32,868</u>
Due from general fund to:	
Housing and Urban Development	\$ 1,055
Nonmajor governmental funds	2,458
Nonmajor enterprise funds	<u>72</u>
Total due from general fund to other funds	\$ <u>3,585</u>

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

Interfund transfers for the year ended September 30, 2006 consisted of the following (in thousands):

<b>Transfer</b>	<b>Amount</b>
To general fund from:	
Self governance DHHS	\$ 1,982
Self governance DOI Roads	1,352
Nonmajor governmental funds	2,761
Nonmajor enterprise funds	<u>134</u>
Total transfers to general fund	<u>\$ 6,229</u>
To Housing and Urban Development from:	
General fund	<u>\$ 67</u>
To Self governance DHHS from:	
General fund	<u>\$ 50</u>
To Sequoyah Education from:	
General fund	\$ 200
Nonmajor governmental funds	<u>226</u>
Total transfers to Sequoyah Education	<u>\$ 426</u>
To internal service fund from:	
General fund	<u>\$ 538</u>
To enterprise fund from:	
Housing and Urban Development	\$ 50
Nonmajor governmental funds	<u>41</u>
Total transfers to enterprise funds	<u>\$ 91</u>
To nonmajor governmental funds from:	
General fund	\$ 9,598
Self governance DHHS	1,002
Housing and Urban Development	<u>53</u>
Total transfers to nonmajor governmental funds	<u>\$ 10,653</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, 2006 (in thousands):

	Internal Service Funds	Governmental Funds	Component Units	Total
Finished goods and raw materials	\$ -	\$ -	\$ 20,716	\$ 20,716
Food for distribution	-	652	-	652
Supplies	111	14	-	125
Less inventory reserves	-	-	(10,508)	(10,508)
Total inventories	<u>\$ 111</u>	<u>\$ 666</u>	<u>\$ 10,208</u>	<u>\$ 10,985</u>

The majority of the component unit inventory at September 30, 2006 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, 2006 follows (in thousands):

<u>Governmental Activities</u>	Balance, September 30, 2005	Additions and Net Transfers	Retirements	Balance, September 30, 2006
<b>Activity by Major Class</b>				
Capital assets, not being depreciated -				
Land	\$ 9,913	\$ 781	\$ -	\$ 10,694
Buildings and improvements	-	128	-	128
Construction in process	5,350	14,146	-	19,496
Total capital assets, not being depreciated	<u>15,263</u>	<u>15,055</u>	<u>-</u>	<u>30,318</u>
Capital assets being depreciated:				
Buildings and improvements	26,604	1,371	-	27,975
Equipment	19,713	2,471	(749)	21,435
Land improvements	22	-	-	22
Total capital assets being depreciated	<u>46,339</u>	<u>3,842</u>	<u>(749)</u>	<u>49,432</u>
Less accumulated depreciation for:				
Buildings and improvements	(7,972)	(715)	-	(8,687)
Equipment	(12,832)	(2,527)	740	(14,619)
Land improvements	-	(1)	-	(1)
Total accumulated depreciation	<u>(20,804)</u>	<u>(3,243)</u>	<u>740</u>	<u>(23,307)</u>
Total capital assets being depreciated, net	<u>25,535</u>	<u>599</u>	<u>(9)</u>	<u>26,125</u>
Activity by major class capital assets, net	<u>\$ 40,798</u>	<u>\$ 15,654</u>	<u>\$ (9)</u>	<u>\$ 56,443</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Tribal Government	\$ 1,116
Health Services	609
Education Services	191
Human Services	76
Community Services	220
Other Tribal Services	<u>1,031</u>
Total Governmental activities depreciation expense	<u>\$ 3,243</u>

<b><u>Business-type Activities</u></b>	<b>Balance, September 30, 2005</b>	<b>Additions and Net Transfers</b>	<b>Retirements</b>	<b>Balance, September 30, 2006</b>
Capital assets, not being depreciated -				
Land	\$ 81	\$	\$	\$ 81
Capital assets being depreciated:				
Buildings and improvements	8,177	879		9,056
Machinery and equipment	<u>2,723</u>	<u>-</u>	<u>(10)</u>	<u>2,713</u>
Total capital assets being depreciated	<u>10,900</u>	<u>879</u>	<u>(10)</u>	<u>11,769</u>
Less accumulated depreciation for:				
Buildings and improvements	(2,127)	(703)	-	(2,830)
Machinery and equipment	<u>(2,003)</u>	<u>(266)</u>	<u>10</u>	<u>(2,259)</u>
Total accumulated depreciation	<u>(4,130)</u>	<u>(969)</u>	<u>10</u>	<u>(5,089)</u>
Total capital assets being depreciated, net	<u>6,770</u>	<u>(90)</u>		<u>6,680</u>
Business-type activities capital assets, net	<u>\$ 6,851</u>	<u>\$ (90)</u>	<u>\$</u>	<u>\$ 6,761</u>

Component Unit Activities

	Balance, September 30, 2005	Additions and transfers in	Retirements and transfers out	Balance, September 30, 2006
CNB and HACN:				
Capital assets, not being depreciated:				
Land	\$ 23,396	\$ 11,037	\$ (617)	\$ 33,816
Construction in progress	7,862	30,952	(27,458)	11,356
Artwork	-	17	-	17
Total capital assets not being depreciated	<u>31,258</u>	<u>42,006</u>	<u>(28,075)</u>	<u>45,189</u>
Capital assets being depreciated:				
Buildings and improvements	214,847	25,019	(5,554)	234,312
Machinery and equipment	<u>63,047</u>	<u>11,505</u>	<u>(6,870)</u>	<u>67,682</u>
Total capital assets being depreciated	<u>277,894</u>	<u>36,524</u>	<u>(12,424)</u>	<u>301,994</u>
Less accumulated depreciation for:				
Buildings and improvements	(69,795)	(9,088)	3,669	(75,214)
Machinery and equipment	<u>(30,648)</u>	<u>(12,186)</u>	<u>6,521</u>	<u>(36,313)</u>
Total accumulated depreciation	<u>(100,443)</u>	<u>(21,274)</u>	<u>10,190</u>	<u>(111,527)</u>
Total capital assets being depreciated, net	<u>177,451</u>	<u>15,250</u>	<u>(2,234)</u>	<u>190,467</u>
CNB and HACN activities capital assets-net	<u>208,709</u>	<u>57,256</u>	<u>(30,309)</u>	<u>235,656</u>
Other Component Unit activities – CNHHS and CNI capital assets, net	<u>1,007</u>	<u>579</u>	<u>(177)</u>	<u>1,409</u>
Total of the Component Unit activities-capital assets, net	<u>\$ 209,716</u>	<u>\$ 57,835</u>	<u>\$ (30,486)</u>	<u>\$ 237,065</u>

## 9. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2006 was as follows (in thousands):

<u>Governmental Activities</u>	Balance, October 1, 2005	Additions	Reductions	Balance, September 30, 2006	Current Portion	Long-Term Portion
<b>Notes Payable</b>						
3.7% Note payable to Bank of America. See (1) below.	\$ 3,993	\$ -	\$ (459)	\$ 3,534	\$ 476	\$ 3,058
Note payable to bank in fixed principal payments. See (2) below.	31,055		(2,853)	28,202	1,854	26,348
Note payable to bank bearing interest at Chase Prime (4% at September 30, 2005) in monthly installments of \$18 including interest, with final payment due in October 2006, collateralized by future operating transfers from CNE (limited to \$18 per month) to the Nation.	131		(131)	-	-	
Note payable to bank collateralized by real estate bearing interest at 4% in monthly installments of approximately \$5 maturing in 2011.	170		(49)	121	54	67
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.	97		(20)	77	22	55
Note payable to bank collateralized by building bearing interest at 6.263% in monthly installments of approximately \$16, with final payment due in May 2013. See (3) below.		2,500	(64)	2,436	397	2,039
Note payable to bank collateralized by building bearing interest at 6.013% in monthly installments.		978		978	978	
Note payable to bank collateralized by building bearing interest at 6.013% in monthly installments.		910		910	910	
<b>Capital Leases</b>						
Capital leases payable to Caterpillar Financial Services with aggregate monthly installments of \$9.7 including interest, with interest rates ranging from 4.29% to 4.44% and final payment due in October 2009. Secured by related equipment.	439		(92)	347	95	
Capital leases payable to Key Government Finance with final annual installment of \$253 including interest of 3.26% due in June 2007. Secured by related equipment		758	(505)	253	253	
<b>Total long-term debt</b>	<u>35,885</u>	<u>5,146</u>	<u>(4,173)</u>	<u>36,858</u>	<u>5,039</u>	<u>31,819</u>
<b>Compensated Absences (See (4) below)</b>	<u>3,607</u>	<u>5,474</u>	<u>(5,197)</u>	<u>3,884</u>	<u>3,884</u>	
<b>Total long-term debt and compensated absences</b>	<u>\$ 39,492</u>	<u>\$ 10,620</u>	<u>\$ (9,370)</u>	<u>\$ 40,742</u>	<u>\$ 8,923</u>	<u>\$ 31,819</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.
- (2) In July 2002, the Nation entered into a \$50,000,000 loan agreement, 95% guaranteed by United States Department of Housing and Urban Development Title VI program. The loan proceeds are divided into two separate "pools" which carry different interest rates over the life of the loan. Pool A, with a balance at September 30, 2006 of \$9,774,000 carries an interest rate of 6.7%. Pool B, with a balance at September 30, 2006 of \$18,428,000 carries a variable interest rate, reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2006 was 2.53%. Pool A is repayable in monthly principal payments of \$54,358 through May 1, 2022, plus interest. Pool B, effective April 1, 2005 requires monthly principal payments of \$100,150 through June 1, 2022, plus interest. The loan matures in December 2022. The loan proceeds were transferred to the HACN under a loan agreement between the Nation and the HACN to provide funding for construction or acquisition of single-family homes within the Nation's fourteen county jurisdictional area. The Housing Authority provided construction and acquisition of housing for eligible participants using Title VI loan proceeds "drawn down" through the Nation. As part of its participation in the Title VI loan, the Housing Authority was required to deposit securities in escrow with Bank One in an amount equal to five percent of the total loan balance, or approximately \$2,500,000. These securities are being pledged as collateral for the Title VI loan to cover the portion of the loan balance not guaranteed by HUD. The interest and dividends generated on these securities remains the property of the Housing Authority. As collateral for the Title VI loan, the Nation has pledged all current and future grants for which the borrower becomes eligible under NAHASDA as well as program income directly generated from the use of the loan proceeds, program income derived from the sale or lease of real property acquired, rehabilitated or constructed with loan proceeds, and the securities deposited to the Pledge Account. Any program income generated from the above is required to be deposited into a "Loan Repayment Account" to serve as an additional source of payment of principal and interest related to the Title VI loan. The Nation's note receivable from HACN at September 30, 2006 was \$28,048,000, of which, \$1,854,000 is included in notes receivable current and \$26,194,000 is reflected as long term notes receivable in the government-wide statement of net assets. (See Footnote 1 on page 61.)
- (3) In May 2006, the Nation entered into a \$2,500,000 credit agreement with a bank to fund the construction project at Sequoyah High School. This note bears interest at 6.263% per annum, in monthly principal and interest installments of \$16,026 with final payment due in May 2013.
- (4) Compensated absence liabilities are generally liquidated by the Fringe Pool Internal Service Fund, which allocates to and collects from other funds and/or departments within the Nation. Compensated absences are considered due within one year since the liability can be made payable at any time by the employee leaving the employment of the Nation.

The balance of long-term debt for business-type activities at September 30, 2006, was \$3,647,000. The balance of Long-Term Debt for Component Units at September 30, 2006, was \$37,919,000. Long-term debt in the business-type activities and component units at September 30, 2006 consisted of the following (in thousands):

<b><u>Business-Type Activities</u></b>	<b>Balance, October 1, 2005</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance, September 30, 2006</b>	<b>Current Portion</b>	<b>Long-Term Portion</b>
<b>Tsa-La-Gi Apartments</b>						
6.875% note payable to the U.S. Department of Housing & Urban Development (HUD) in monthly installments of \$10 including interest, with final payment due 2012, secured by certain land and buildings.	\$ 656	\$ -	\$ (81)	\$ 575	\$ 86	\$ 489
<b>Landfill Operations</b>						
4.0% note payable to Caterpillar Financial Services in monthly installments of \$4 including interest with final payment due April 2008. Secured by related equipment.	137		(137)			
4.865% note payable to Derricks Leasing and Financial Company in monthly installments of \$4.3 including interest with final payment due July 2008. Secured by related equipment.	138		(138)			
7.75% note payable to Bank of Cherokee County in monthly installments of \$8.2 including interest, with final payment due December 2005, secured by related equipment.	24		(24)			
4.75% note payable to Caterpillar Financial Services in monthly installments of \$8 including interest with final payment due December 2009. Secured by related equipment.	378		(83)	295	86	
7.0% note payable to CNE in monthly installments of \$15 including interest with final payment due January 2010. Secured by Landfill accounts receivable.	-	1,300	(61)	1,239	98	1,141
<b>Economic Development Trust Authority</b>						
Note payable to the Department of Agriculture in variable annual installments including interest of 1% annual, with final payment due October 16, 2030.	1,097	<u>483</u>	<u>(42)</u>	<u>1,538</u>	<u>42</u>	<u>1,496</u>
<b>Total</b>	<b><u>\$ 2,430</u></b>	<b><u>\$ 1,783</u></b>	<b><u>\$ (566)</u></b>	<b><u>\$ 3,647</u></b>	<b><u>\$ 312</u></b>	<b><u>\$ 3,335</u></b>



<u>Component Units</u>	<u>Balance October 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2006</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
<b>Housing Authority of the Cherokee Nation ("HACN")</b>						
Note payable to Cherokee Nation in fixed monthly principal payments of \$155, 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	30,901	-	(2,854)	28,047	1,854	26,193
Note payable to bank in fixed monthly payments of \$1.3 including principal and interest. Interest calculated at 6.75% annual with final payment due February 2021. See (2) below.	-	152	(5)	147	6	141
<b>Cherokee Nation Businesses ("CNB")</b>						
Capital lease agreement for CNE for certain pieces of gaming and computer equipment. Equipment paid at varying weekly and monthly principal payments, with interest rates between 7 - 12%. Fully paid in FY2006.	306	-	(306)			
Revolving line of credit. See (3) below.	3,869	131	(4,000)			
<b>Cherokee Nation Industries, Inc. ("CNI")</b>						
Revolving line of credit. See (4) below.	4,534	1,792	-	6,326	-	6,326
Note payable from a bank with monthly installments of \$5 including interest at the treasury rate plus 2.5% (6.213% at June 30, 2005). The note matures in September 2005 and is secured by equipment.	1	-	(1)			
Promissory note payable to creditor for restructuring an existing trade payable initiated in fiscal 2002 for inventory purchases totaling \$7,957 to a long-term promissory note. Amended July 2003. 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).	754	-	(142)	612	119	493
Note payable from a bank due October 2011 secured by substantially all the Company's assets. Principal and interest at 8.25% payable monthly; 80% guaranteed by BIA.	-	2,500	(251)	2,249	359	1,890
<b>Cherokee Nation Home Health Service ("CNHHS")</b>						
7.5% Note payable to bank on a \$372 promissory note, which expires on June 7, 2007. The promissory note is collateralized by the property. See (5) below.	5	366	(3)	368	9	359
Lines of credit with a bank expiring April 2007; interest accrues at 8.5% payable monthly. Limited to 65% of eligible accounts receivable and collateralized by accounts receivable. Outstanding principle and interest due upon maturity. See (6) below.	-	170	-	170	170	
Capital lease payable	8	-	(8)	-	-	
<b>Total</b>	<b>\$ 40,378</b>	<b>\$ 5,111</b>	<b>\$ (7,570)</b>	<b>\$ 37,919</b>	<b>\$ 2,517</b>	<b>\$ 35,402</b>

- (1) HACN, during fiscal year 2006, did not receive any loan advances for the Title VI program. This resulted in a cumulative amount of funds drawn on the available loan funds of \$33,231,000. The loan is divided into two separate "pools" which carry different interest rates over the life of the loan. Pool A, whose balance at September 30, 2006 was \$9,719,324 carries an interest rate of 6.7%. Pool B, whose balance at September 30, 2006 was \$18,328,155 carries a variable interest rate reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2006 was 6.02%. Pool A is repayable in monthly principal payments of \$54,358 through May 1, 2002, plus interest. Pool B principal payments of \$100,150 began March of 2005 and are scheduled through June 1, 2022, plus interest. During fiscal year 2006, HACN made total principal payments on Pool A of \$1,152,297 and on Pool B of \$1,701,797.
- (2) During fiscal year 2006, HACN borrowed \$151,500 for its costs related to the Claremore QuadPlex project. The loan is repaid in monthly payments, beginning February 1, 2006, of \$1,341 including principal and interest. The loan carries an interest rate of 6.75%. The final payment will be made on February 1, 2021. At September 30, 2006 the loan balance was \$147,004.
- (3) In 2006, CNE, a blended component unit of CNB, determined that it would not require CNB to pay the \$4,000,000 loan it had entered into with CNB in prior years.
- (4) CNI has an \$11,500,000 revolving line of credit expiring October 2007. At June 30, 2006, there was approximately \$6,326,000 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 (8.25% at June 30, 2006) and is payable monthly. The line of credit is 80% guaranteed by the Bureau of Indian Affairs (BIA). The amount of funds advanced on this line of credit is not to exceed 50% of eligible inventory plus 80% of eligible accounts receivable of \$14,000,000 whichever is less. CNI also has a term note due October, 2011, with principal and interest at 8.25% payable monthly secured by substantially all of the company's assets and 80% guaranteed by the BIA.

Effective April 4, 2002, CNI and a creditor restructured an existing trade payable initiated in fiscal year 2001 for inventory purchases totaling \$7,957,000 to a long-term promissory note in 2005. The note is payable monthly with interest at 4% and is due in 2011.

- (5) CNHHS renewed a promissory note and security agreement with a bank in June 2006 totaling \$371,261, which expires on June 7, 2009. Payments of \$2,901, including interest at 7.0% are due monthly with the remaining balance payable upon maturity. The purpose of the note was to finance the construction of a new office building, completed in March 2006. The note payable is collateralized by the property financed. Amount outstanding at September 30, 2005 was \$367,937.
- (6) At September 30, 2006, CNHHS had three revolving line of credit agreements with a bank totaling \$256,000 which expire in April 2007. Interest accrues at 8.5% and is payable monthly. The lines of credit are limited to 65% of eligible accounts receivable and are collateralized by accounts receivable. The outstanding principle balance and unpaid interest is due upon maturity. At September 30, 2006, the outstanding balances under the lines of credit totaled \$169,680.

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

	Principal	Interest	Total
<b>Governmental Activities:</b>			
2007	5,039	1,869	6,908
2008	2,899	1,687	4,586
2009	2,925	1,547	4,472
2010	2,763	1,410	4,173
2011	2,776	1,275	4,051
2012 through 2016	10,797	4,543	15,340
2017 through 2021	9,260	1,838	11,098
2022 through 2026	399	11	410
Total	<u>\$ 36,858</u>	<u>\$ 14,180</u>	<u>\$ 51,038</u>
<b>Business-Type Activities:</b>			
2007	312	148	460
2008	1,378	80	1,458
2009	249	42	291
2010	186	31	217
2011	170	23	193
2012 through 2016	359	62	421
2017 through 2021	299	45	344
2022 through 2026	315	30	345
2027 through 2031	303	14	317
2032 through 2036	76	1	77
Total	<u>\$ 3,647</u>	<u>\$ 476</u>	<u>\$ 4,123</u>

## 10. CNE LINE OF CREDIT

CNE, a blended component unit of CNB, entered into a \$40 million, two part, revolving line (the Line) of credit with a bank on October 14, 2003. The Line provides for a \$25 million reducing line (Line A) available through November 1, 2008, and a separate \$15 million nonreducing line (Line B) available through March 31, 2007. Line A may be renewed for one additional year with the payment of a fee. Interest on the Line is payable at the bank's prime rate or the London InterBank Offered Rate plus 1%. At September 30, 2006 and 2005, the interest rate in effect was 8.25% and 6.75%, respectively. No amounts were drawn on the Line at September 30, 2006 or 2005. Unused borrowings under the Line are subject to a commitment fee of 0.2%. The Line is secured by a pledge of revenues, inventory, accounts receivable and equipment. The credit agreement subjects CNE to a number of covenants, including certain financial covenants.

## 11. TRUST LIABILITY

The Housing Authority has several lease-to-own homebuyer programs wherein the tenant/homebuyer may eventually purchase the house in accordance with contractual agreements. These transactions are similar to a financing lease, however are not accounted for as such as the amount and ability to collect the minimum lease payments is not predictable.

Until the time of transfer, these homes remain the property of the HACN. The costs of those units are depreciated over the expected term of payoff at the time of the original agreement, generally 25 years. When the home is paid off in accordance with the agreements and title is transferred to the homebuyer, a gain or loss is recognized by HACN.

The HACN Trust Liabilities reflected in the accompanying financial statements primarily includes a liability for funds that have been received from the tenants or homebuyers in the various lease-to-own programs that HACN operates. These funds are held in a trust type account to be applied to various uses, depending on the agreement with the tenant/homebuyer. The largest of the amounts included in this category are for accounts attributable to the New Mutual Help Housing Program wherein the tenant/homebuyers are credited with a portion of the funds that they have contributed as well as others amounts credited to them in accordance with DHUD requirements and program policies. Under the provisions of mutual-help occupancy agreements, tenant/homebuyers are required to make payments based on the family or household income. After deducting an administrative fee as set forth by DHUD, the remaining balance is credited to the participant's equity payment account (MEPA). The balance of the MEPA accounts, which are being held by HACN on behalf of the New Mutual Help homebuyers, was \$8,932,169 as of September 30, 2006. This along with other credits to these tenant/homebuyers totaled \$10,312,495 at September 30, 2006. Although these funds will generally be retained by HACN upon the transfer of home ownership to the tenant/homeowner, they are presented as a liability until then because the funds are effectively owned by the tenant/homeowner. Upon transfer of the home to the tenant/homeowner the funds will be considered revenue and applied to the carrying value of the related home and a gain or loss will be recorded by HACN.

Additionally, at September 30, 2006, other amounts included in this category include escrow deposits held by the Housing Authority associated with the Title VI program mortgages totaling \$313,379, Lease\Purchase Program equities of \$88,102 on other lease-to-own programs and low income housing tenant's security deposits of \$110,855.

## **12. FUND BALANCE DESIGNATIONS AND RESERVATIONS**

At September 30, 2006, the Nation had a total General Fund fund balance of \$72,858,000. This balance includes \$36,282,000 that has been reserved by the Legislative Act or restricted by external sources and an unreserved fund balance of \$36,576,000. 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, 2006 follows (in thousands):

Balance at beginning of year	\$ 21,512
FY2006 Motor Fuel Tax revenues	7,406
Interest earnings on unexpended funds	612
Actual expenditures	<u>(4,856)</u>
Balance at end of year	<u>\$ 24,674</u>

**Tobacco surtax and tobacco retailers loan fund** — The Nation passed legislation in 2006 adding a surtax to be levied on tobacco transactions occurring between retailers within the Nation’s boundaries. The surtax is reserved for initiatives to prevent and treat diabetes and cancer. The amount collected in 2006 totaled \$2,203,000. In addition, the legislation established a \$1,000,000 loan fund to be made available to tobacco retailers that are adversely affected by Oklahoma Tax Commission emergency rules. No loans have been made as of September 30, 2006.

**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, 2006 totaled approximately \$5,255,000. A summary of activity in this reserved fund balance during the year ended September 30, 2006 follows (in thousands):

Balance at beginning of year	\$ 4,761
FY2006 Motor Vehicle Tax revenues	7,188
Interest earnings on unexpended funds	125
Actual expenditures	<u>(6,819)</u>
Balance at end of year	<u>\$ 5,255</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, 2006 was \$1,256,000.

**Arkansas River Drybed Lands Settlement** — In FY 2004, Legislative Act 5-04 established the policies and procedures for governing the use and expenditure of trust funds awarded to the Cherokee Nation under the Cherokee, Choctaw, and Chickasaw Nations Claims Settlement Act (“Settlement Act”). The Settlement Act specifically set aside trust funds to be appropriated by Congress for Trust Land Acquisitions. The settlement proceeds, after payment of legal fees are reserved for the purchase of land in designated areas. The reserved fund balance and interest accumulated on the Arkansas River Drybed Lands Settlement at September 30, 2006 follows (in thousands):

Balance at beginning of year	\$ 1,867
Transfer from Judgement Funds	2,198
Legal fees	(450)
Actual expenditures	<u>(1,721)</u>
Balance at end of year	<u>\$ 1,894</u>

**Unreserved General Fund** — A summary of activity in the unreserved General Fund balance for the year ended September 30, 2006 follows (in thousands):

Unreserved fund balance at beginning of year	\$ 24,175
FY2006 General Fund revenues and other financing sources	63,289
Less:	
Actual expenditures and other financing uses	(49,398)
Additional funds restricted by Tribal Council in 2006	<u>(1,490)</u>
Unreserved fund balance at end of year	<u>\$ 36,576</u>

The Indirect Cost Settlement reserved fund balance was transferred to the Nowata, Muskogee and Sallisaw clinics to assist in construction of the facilities as required by the 2006 approved budget and was expended prior to September 30, 2006.

The Sequoyah High School reserved fund balance was expended in fiscal year 2006. The facility built with these funds, entitled, "The Place Where They Play" is a multi-purpose building encompassing a gymnasium, theater, classroom and auditorium for the Sequoyah High School and the Cherokee Nation.

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

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

The Nation operates a solid waste landfill in eastern Oklahoma. The Nation accounts for this landfill operation in accordance with the provisions of GASB Statement No. 18, "Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs" ("Statement No. 18"), in the Landfill Operations Enterprise Fund.

Federal regulations will require the Nation to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will only be paid near or after the date the landfill stops accepting waste, Statement No. 18 requires proprietary funds, such as Landfill Operations, to report a portion of these costs as an operating expense in each period based on landfill capacity and utilization. The \$1,909,000 reported as Landfill Closure and Postclosure Care Liability at September 30, 2006 (included in "Other Noncurrent Liabilities"), represents the cumulative costs recognized to date based on the existing use of 30% of the total estimated capacity of the landfill. Landfill Operations will recognize the remaining estimated cost of closure and postclosure care of approximately \$4,333,000 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 2006. The Nation expects the landfill to have a remaining life of approximately 16 years. Actual costs may be higher due to inflation, changes in technology, or changes in regulations.

The Nation makes annual contributions to a restricted bank account to finance closure and postclosure care. At September 30, 2006, restricted cash and cash equivalents of approximately \$1,829,000 were held for these purposes. The Nation expects that future inflation costs will be paid from interest earnings on these annual contributions. However, if interest earnings are inadequate or additional postclosure care requirements are necessary (due to changes in technology or applicable laws or regulations, for example), such costs may need to be funded by charges to future landfill users or other revenue sources.

Effective July 1, 2005, the Cherokee Nation entered into an operating agreement with Indian County Investments, LLC, ("ICI") to have the exclusive right to manage and operate Cherokee Nation Sanitary Landfill ("CNSL"). This agreement has a term of the life of the facility, which is an estimated 16 years. Within this agreement ICI has agreed to pay the Nation \$3 million dollars, for certain equipment and the operating rights for the facility, of which, \$300,000 was paid to the Nation by ICI upon execution of this agreement which is reported as deferred revenue at September 30, 2006. The remaining \$2.7 million is due to the Nation upon completion by ICI of the facility master plan and approval by the Cherokee Nation Environmental Protection Commission ("CNEPC").

Under the agreement, certain Nation employees are leased to ICI. The cost of salaries and benefits for the leased employees is paid to the Nation by ICI. In 2006, the aggregate amount of these salaries and benefits was \$584,000 and is included in the charges for services and goods on the statement of revenues, expenses and changes in fund net assets.

Under the agreement the Nation is to receive a quarterly host fee that is based upon actual tonnage generated at the CNSL. In 2006, the host fees were \$415,000. Until CNSL has received approval of the facility master plan from the CNEPC, ICI will pay to the Nation a host fee of \$2.00 per ton of waste collected at the CNSL quarterly. Upon completion of this permit, ICI has committed to pay the Nation an annual guaranteed host fee of \$500,000 per year for the subsequent two (2) years, \$750,000 for year 3 and \$900,000 for year 4 and all subsequent years. Under the agreement, the Nation is to receive \$1.00 per ton of waste collected at the CNSL for closure and postclosure costs. The amount per ton is to be adjusted annually based on engineering reports.

#### **14. RISK MANAGEMENT AND SELF-INSURED HEALTH PLANS**

The Nation manages its risk exposures through risk retention and the purchase of insurance. In the area of health benefits, the Nation utilizes a modified self-insured program with a third party administrator. Claims for benefits are paid by the Nation to a level of \$150,000 per year per employee. Amounts over \$150,000 are subject to reimbursement by the insurance company.

The Nation is self-insured against employee health and short-term disability claims incurred under its employee group health disability plan. The maximum liability risk to the Nation is \$150,000 per employee per year. Any claims in excess of this limit are covered by insurance. Significant insurable exposures other than health claims are covered by commercial insurance. For insured exposures, there were no significant reductions in insurance coverage during the year ended September 30, 2006. Additionally, settlement amounts have not been in excess of insurance coverage in each of the past three years.

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

The first \$100,000 of risk is retained with the All Lines Aggregate program responding to losses occurring between \$100,001 - \$5,000,000. 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 includes the following exposures: Commercial Auto, General Liability, Crime, Employee Dishonesty, Directors' & Officers' Liability, Errors and Omissions Liability, Law Enforcement Officials Liability, Employee Benefit Liability, Employment Related Practices Liability, Medical Malpractice and Workers' Compensation. Effective 10/01/2005, the \$10,000,000 was discontinued and the liability limit for the All Lines Aggregate program was increased to \$5,000,000.00 per occurrence.

The Nation's reported employee health claims liability of \$2,013,000 at September 30, 2006, 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):

<b>Fiscal Year</b>	<b>Balance at Beginning of Year</b>	<b>Claims and Changes in Estimates</b>		<b>Claim Payments</b>	<b>Balance at End of Year</b>
2005	\$ 2,202	\$ 13,295		\$ (12,194)	\$ 3,303
2006	\$ 3,303	\$ 12,885		\$ (14,175)	\$ 2,013

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

#### **15. EMPLOYEE RETIREMENT PLAN**

The following brief descriptions of the Nation's retirement plans are provided for general information purposes only. Participants should refer to the applicable plan documents for more complete information. The Nation sponsors a defined contribution 401(k) plan, which utilizes Reliance Trust Company, as trustee. A defined contribution plan provides retirement benefits in return for services rendered, provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. Under a defined contribution plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account, the returns earned on investments of those contributions, and forfeitures of other participants' benefits that may be allocated to such participant's account. All regular full-time and regular part-time employees who have attained at least 18 years of age are eligible to participate in the plan upon employment. The plan year is January 1 through December 31. Participants become fully vested after four years of participation in the plan. Employees may contribute from 1% to 25% of their gross salary, and after 6 months of service the Nation will match 100% for the first 5% and 50% of the next 4%. The plan is administered by the Group Leader of Human Resources, with input from the Nation's Pension Committee. The Pension Committee consists of the plan administrator and employees of the Nation. The plan administrator is responsible for amending the plans' provisions, including contribution requirements.

The Nation's primary government's total gross payroll for fiscal 2006 was approximately \$74,523,000, which included approximately \$73,266,000 for employees covered by the plans.



Contributions to the 401(k) plan for 2005 were approximately \$5,500,000. Contributions expressed in dollars and percent of covered payroll were: Nation \$2,400,000, 3.3% and participants \$3,100,000, 4.2%.

<b>Trend Information</b> (in thousands)		
<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
2004	\$ 2,073	100%
2005	\$ 2,269	100%
2006	\$ 2,414	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 2006 were \$253,736 of which \$72,163 was required and made by the Nation and \$181,573 was made by participants.

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

## **16. RELATED PARTY TRANSACTIONS**

The Nation requires monthly dividend payments from component units, organized under the Nation's laws, based on a percentage of net income (30% as of September 30, 2006). Dividend payments to the Nation by component units totaled \$25,443,521 (which includes an accrual of \$2,468,264 for distribution in October 2006) during 2006. **The accrual is included in accounts payable balance for CNB.** Of this amount, \$20,346,283 was transferred directly to the Nation from CNE and \$5,097,238 was transferred to the Nation from CNB after the transfer of ownership of CNE to CNB.

The Nation levies certain taxes and fees which apply to some of the Nation's component units. During 2006, the Nation collected a tribal tax on food and beverage, tobacco, merchandise and other retail sales from CNE totally \$938,931. The Nation's Gaming Commission, which has regulatory oversight responsibility for gaming, collected fees of \$1,800,000 from CNE. The Nation also provides certain security services to CNE through the Nation's Marshal Service. In 2006, the Nation collected \$511,803 from CNE for services provided by the Marshals.

The Nation received capital grants from CNE in the amount of \$411,836. The grants were for the donation of a modular building with a value of \$322,978 and expenses of \$88,858 incurred by CNE related to the refurbishment of the Sequoyah High School softball complex.

The Nation has entered into certain lease agreements with CNE. CNE leases land for a driving range at the Cherokee Trails Golf Course in Tahlequah, Oklahoma, expiring on August 31, 2009. CNE also leases the restaurant and gift shop facilities in Tahlequah expiring on September 30, 2007. Each lease requires a nominal annual fee.

The Nation provided an operating grant of \$832,000 to Cherokee Nation Comprehensive Care Agency (CNCCA) during 2006 for the start-up operations of CNCCA's program of all inclusive care for the elderly (PACE) program (\$500,000) and movement of equity in a joint venture (\$332,000).

Cherokee Nation Businesses — In 2006, CNB provided internal audit, legal and other services to CNI, at a cost to CNI of \$300,000. This amount is included in CNB's accounts receivable as of September 30, 2006. CNB also provided internal audit, legal and other services to CNE, a blended component unit of CNB.

In 2006, CNB entered into a construction agreement with Cherokee Nation Home Health Services, Inc., another component unit of the Cherokee Nation for the construction of a building to be used by the Nation's Program of All-Inclusive Care for the Elderly ("PACE"). The construction contract is for actual time and material costs not to exceed \$960,000. Upon completion of the building, CNB expects to lease the building to the Nation's PACE program under a long term lease arrangement.

Cherokee Nation Industries — The Nation leases certain properties to CNI under a month-to-month agreement. Lease revenues to the Nation for the properties were approximately \$67,000 for 2006.

The Nation entered into a Memorandum of Understanding (MOU) with CNI to manage certain construction contracts of the Nation and CNE facilities. These contracts were previously managed by the Nation and CNE. The Nation and CNE agreed to pay CNI a management fee of 10% of the cost of the projects. CNI had construction revenue of approximately \$9,510,000 and construction costs of approximately \$8,420,000 resulting from the arrangement. At June 30, 2006, The Nation and CNE owed approximately \$3,132,000 for reimbursement of construction costs and management fees to CNI.

Cherokee Nation Home Health Services — In February 2006, CNHHS entered into an agreement with Cherokee Nation Comprehensive Care Agency (CNCCA) PACE program, to provide an all-inclusive care program for the elderly. CNHHS recognized service revenue and related expenses and at year end held \$12,311 of accounts receivable, net from this transaction. CNHHS received \$160,951 from the Nation for services, of which \$138,471 was earned and recognized as other service revenue in the CNHHS statements with related expenses of \$123,947 for the year ended September 30, 2006.

Cherokee National Historical Society — In November 2005, the Nation, CNE, and the Cherokee National Historical Society (CNHS) entered into a Memorandum of Agreement to further the parties shared mission to preserve the culture and history of the Cherokees by assigning duties to the party that can best perform those duties. CNHS remained responsible for all charitable fundraising, maintaining memberships, operating the museum and teach the Cherokee Humanities Course. In 2006, CNE provided marketing services, including group sales, and operation of the museum store at a net cost to CNE of \$15,000. The Nation performed all remaining operational and educational functions such as accounting, purchasing, contracts, human resources, information technology, and facilities maintenance. The Memorandum of Agreement is renewable annually upon agreement of the entities involved. For fiscal year 2006, the Nation's general fund included an operational budget of \$1,200,000 for the Cherokee Heritage Center.

## 17. COMMITMENTS AND CONTINGENCIES

Delaware Litigation — In 1998, Cherokee Nation challenged the Secretary of the Interior's decision to recognize the Delaware Tribe of Indians as a federally recognized Indian tribe existing independently of the Cherokee Nation. The 10<sup>th</sup> Circuit Court in 1994 reversed the District Court, holding that the Delaware were "incorporated" into the Cherokee Nation by an 1867 treaty and thus not a federally recognized Indian tribe. The United States Supreme Court denied certiorari on October 3, 2005. Final judgment was filed on October 26, 2005. Negotiations are ongoing to resolve issues concerning the relationship of the parties.

Citizenship Litigation — The Nation held a special election on March 3, 2007 regarding criteria for citizenship in the Cherokee Nation. The results of that election were that citizenship is now limited to those individuals who had an Indian ancestor on the Dawes Rolls. There is a case filed in the District Court of the District of Columbia, pending on the same issue. Those persons excluded by the special election have alleged that they cannot be disenrolled under the Nation's 1866 Treaty with the United States, along with various federal laws. The net impact of this case is not certain but is not expected to have a material adverse economic impact on the Nation.

Federal Grants — In the normal course of operations, the Nation and 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.

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

United Keetoowah Band/Arkansas River Drybed Settlement Claim — The United Keetoowah Band of Cherokee Indians of Oklahoma filed a claim in the United States Court of Claims, alleging that it was entitled to a portion of the funds from the Arkansas Riverbed Settlement Act passed by Congress. That claim was denied and is now on appeal to the United States Federal Circuit Court of Appeals. 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.

Constitution — The Nation's citizens approved a new Constitution in 2003 which, among other changes, removed the requirement that the United States government approve changes to the Constitution. The Constitution has been implemented. The implementation of the new constitution is not expected to have a material impact on the financial statements of the Nation.

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.

Housing and Urban Development (HUD) Audit — The U.S. Department of Housing and Urban Development (HUD) issued a monitoring report, dated August 2, 2006, of the Nation's NAHASDA program for the years 2002 through 2005, which contained several findings. Although most of the findings pertained to internal procedures, the report does contain questioned costs of \$62,067, which were reclassified to non-federal funds upon further internal review by the Nation. The most significant questioned cost related to the Nation's

Marshal Service expenditures totaling \$3,765,000. The Nation disagreed with the finding and is continuing to work with HUD to provide the information needed to resolve these questions. The Nation does not expect any additional significant financial impact as a result of the monitoring report.

HACN Matters — The HACN has provided a “Tax Credit Recapture Guarantee” to the Limited Partners of Jay Senior Housing, Stilwell Senior Housing, and the Wisdom Keepers Limited Partnerships (third party syndicators of the tax credits) should the Internal Revenue Service disallow the use of any of the tax credits being marketed to third party investors by the Limited Partners. The HACN has also provided “Operating Deficit Guarantees” to the Limited Partners of Jay and Stilwell Senior Housing Limited Partnerships and Wisdom Keepers Limited Partnerships which would require the Housing Authority to provide capital for operations should the need arise.

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

CNE has various construction projects underway at September 30, 2006, some of which are under contractual commitments, while others do not include contractual commitments, but once construction is started there is generally a business imperative to complete such construction projects. At September 30, 2006, the remaining contractual commitments were approximately \$5,200,000, and the estimated costs to complete other construction projects underway, but not under contractual commitments, were approximately \$13,000,000. Subsequent to September 30, 2006, CNE entered into new construction contracts for expansion projects in Siloam and Roland, Oklahoma. These contracts do not include commitments but once the projects are started there is a business imperative to complete such projects. Total estimated completion costs for these subsequent contracts is approximately \$70,000,000.

In 2004, CNE acquired the property and facilities formerly known as Will Rogers Downs from an unrelated party. As part of the purchase price, CNE agreed to pay an additional \$1,250,000 when, and if, the property is placed into trust status with the Bureau of Indian Affairs, and could be required to make additional payments based on the cash flows generated by the operation of the facility. These additional payments will be capitalized when, and if, made and depreciated, as applicable, over the remaining economic life of the property. No additional payments as described above were required to be made in 2006.

## **18. CNI INVESTMENT IN EQUITY INVESTEEES**

CNI recognized losses from its equity investments in Global Energy Group, Inc. (GEG) and Cherokee Idling Solutions (CISS) during 2006 of approximately \$4,772,000. The losses primarily resulted from a write-off of the carrying value of the investments, based on uncertain future value of the investments.

## **19. SUBSEQUENT EVENTS**

Subsequent to September 30, 2006, the Cherokee Nation passed an Act increasing the minimum wage requirements for all Cherokee Nation employees and employees of entities such as CNB, CNE, and CNI which are effectively owned by the Cherokee Nation. The Act increased the minimum wage from \$5.15 per hour to \$7.50 per hour effective in January 2007, with additional increases to \$8.25 and \$9.00 effective October 31, 2007 and 2008, respectively.

The Nation issued their \$30,000,000 Series 2006 Health Care System Bonds on December 21, 2006. The bonds were issued to fund construction of new clinics in Muskogee and Nowata and an administrative annex for the Redbird Smith clinic in Sallisaw. The bonds carry a coupon rate of 4.1- 4.6% and mature in three

phases beginning in 2011. The bonds are secured by a pledge of the health clinics 3<sup>rd</sup> party revenue and a general obligation of the Nation. A monthly debt service reserve of approximately \$230,000 will be transferred to the bond trustee, Bank of Oklahoma Trust Services. The bonds are insured through ACA Capital and carry a Standard & Poor's "A" rating. The underwriter for the bond issuance was BOSCO, Inc., a subsidiary of BOK Financial Corporation. The proceeds of the bonds will be used to pay off debt incurred to date on these projects and to complete the construction projects.

The Muskogee Clinic, the largest of the three projects, will be constructed and operated in accordance with a Joint Venture Construction Program Agreement ("JVCP") between the Nation and the Indian Health Service, Department of Health and Human Services dated December 28, 2005. The Nation will plan, design, construct, equip, lease and operate the Muskogee Clinic according to IHS specifications. The IHS will provide funds to staff and equip the facility in accordance with the joint venture agreement and the self-governance compact.

The JVCP agreement provides that the Nation is responsible for constructing the Muskogee Clinic. Upon completion of the Muskogee Clinic, the IHS will enter into a "no-cost lease" with the Nation. The no-cost lease is not intended to convey any real property interest in the Muskogee Clinic or the land it is located on but rather, the IHS is merely providing the funding for staffing and equipping the Muskogee Clinic. Pursuant to the terms of the JVCP Agreement, the Self Governance Compact and the no-cost lease, the Nation will be the sole operator of the Muskogee Clinic and all employees of the Muskogee Clinic will be employees of the Nation. The IHS will not directly provide services at the Muskogee Clinic. IHS funding for the operation of the Muskogee Clinic will be provided to the Nation through the Funding Agreements.

CNB Matters — On December 5, 2006, CNB acquired 51% of certain assets, including intangible assets, of CRC and Associates, Inc., a company owned by the minority member of Cherokee CRC, LLC. After acquisition, the assets were contributed by CNB to Cherokee CRC, LLC. The remaining 49% of the assets of CRC & Associates were transferred to Cherokee CRC, LLC by the minority member of Cherokee CRC, LLC. The total purchase price paid for the assets by CNB was \$1,125,000. The purchase agreement includes a contingent tax payment up to \$225,000 in the event the transaction results in a tax deficiency assessment to the minority member. In addition, the purchase agreement provides for employment agreements for the minority member and for the former President of CRC & Associates. The agreement also includes an additional consideration clause, payable in annual installments up to an aggregate maximum of \$500,000 based upon the future financial performance of Cherokee CRC, LLC.

On June 18, 2004, CNB, CT and Connex entered into a Revolving Credit and Term Loan Agreement (the "Loan Agreement"). The minority partners of Connex guaranteed 49% of Connex's debt under the Loan Agreement (the "Connex Debt") and provided collateral to secure their guaranty obligations. The Connex Debt was accelerated on November 30, 2006. The outstanding balance of the Connex Debt was \$3,947,341.43 plus accrued interest as of December 31, 2006. On February 9, 2007, the parties restructured the relationship such that (i) the minority partners paid \$50,000 at closing, (ii) the amount of the Connex Debt was reduced to \$1,950,000, (iii) the minority partners provided additional collateral and agreed to pay \$400,000 on March 7, 2007, and the balance of \$1,550,000 no later than July 31, 2007, and (iv) one of the minority partners and CT's interests in Connex were redeemed, and (v) the term "Cherokee" was removed from Connex's legal name. On March 7<sup>th</sup>, CT received the \$400,000 payment.

In August, 2005, CNB accepted five grants for Community-Oriented Connectivity Broadband Grant Program administered by the U. S. Department of Agriculture Rural Utilities Service aggregating \$3,444,370. The funds provided, together with a required match of 15%, aggregating \$607,830, are designated to be used to provide wireless broadband services to five rural communities located in eastern Oklahoma. As of the date of this report, the grant projects have not been initiated and no funds have been drawn on the grant awards. The Nation, through the Information Services group, has agreed to administer the grants and approval has been

received from the U.S. Department of Agriculture Rural Utilities Service to allow the Nation to administer the grants. The Nation will administer the grants and draw down funds as the projects are implemented.

Pursuant to Tribal Council Resolution 13-07, dated February 2007, CNB's board of directors approved a request for a special distribution to CNB from CNE, LLC for \$15,000,000. The funds will be utilized by CNB to facilitate the pay off of existing debt of CNI, and provide working capital to CNI. The initial transaction is expected to be in the form of a loan from CNB to CNI with a conversion to net assets in the future.

## **20. ADJUSTMENT OF CNB NET ASSETS TO REFLECT CHANGES IN REPORTING ENTITY**

In July 2006, ownership in CNE was transferred from the Nation to CNB. CNE is now accounted for as a blended component unit of CNB. As a result of this transaction, CNB's beginning net assets at September 30, 2005 were adjusted to reflect the beginning net assets as though CNE had always been included in CNB. In addition, the beginning net assets have been adjusted to remove an allowance for loss on the notes receivable between CNE and CNB as of September 30, 2005, because if CNE was presented as a blended component unit of CNB at that date, there would be no need to reflect an allowance. A summary of these adjustments at September 30, 2005 are as follows:

CNB, net deficit at beginning of year as previously reported	(\$1,041)
Adjustment to add net assets of CNE as previously reported by CNE at September 30, 2005	150,799
Adjustment to remove allowance on note receivable between CNE and CNB at September 30, 2005	<u>1,100</u>
Net assets of CNB at beginning of year, as adjusted	<u>\$150,858</u>

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.
- **Talking Leaves Job Corps** – Established to account for funds received from the Department of Labor for counseling, training and job placement of disadvantaged youth.
- **Diabetes** – Established to account for Department of Health and Human Services Diabetes Grant funds used to purchase diabetic medicines and supplies, promote awareness and provide assistance to diabetic patients.
- **Food Distribution** – Established to account for Department of Agriculture food products provided to the Nation and grant funds used to pay administrative and program costs of a program which provides food to eligible Indian families.
- **Women, Infants and Children** – Established to account for grant funds received from the Department of Agriculture to supply supplemental food and nutrition education to women and children at nutritional risk.
- **Head Start** – Established to account for grant funds from the Department of Health and Human Services to provide comprehensive health, educational, nutritional, social, and other services primarily to economically disadvantaged preschool Indian children.
- **PL102-477** – Established to account for funds received through the Department of the Interior from the Department of Labor for counseling, training and job placement of disadvantaged youth, as well as from the Department of Health and Human Services to provide child care services for low-income families with a parent that is working or attending a training or educational program.
- **Title VI** – Established to account for borrowing and lending activities related to the United States Department of Housing and Urban Development Title VI loan agreement, the proceeds of which are obtained from federal government guaranteed bank financing and subsequently loaned to the Cherokee Nation Housing Authority, a component unit of the Nation.
- **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.

**Capital Projects Fund** – Established in 2006 to account for financial resources to be used for major construction projects.

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

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

- **Sequoyah Endowment** – Established to account for funds endowed from the Louise K. Green-Matthews Grant in Environmental Science. The income from the grant is to be used to encourage Cherokee students of at least one-quarter blood quantum to engage in furthering their education in the Environmental Science field.
- **Gammon 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, 2006**  
**(Dollars in Thousands)**

	Permanent Funds											Total Nonmajor Governmental Funds
	Self Governance DOI-Other	Talking Leaves Job Corps	Diabetes	Food Distribution	Women, Infants, & Children	Head Start	PL 102-477	Title VI	Other Grants	Tribal Judgment Funds	Tribal Trusts	
Cash and cash equivalents	3,714	44	4,851	-	1,025	-	7,912	310	945	10,666	1,172	30,591
Investments	-	-	-	-	-	-	-	-	269	8,1	-	8,384
Receivables, net	268	543	-	31	23	203	-	-	1,541	1	5	2,753
Due from other funds	-	-	-	-	-	-	118	-	-	-	-	118
Inventory	-	-	-	652	-	-	-	-	-	-	-	652
Notes receivable	-	-	-	-	-	-	-	-	-	-	-	149
Other current assets	-	-	-	-	448	-	-	-	-	-	-	448
Restricted cash and cash equivalents	-	-	-	-	-	-	-	-	-	1,578	-	1,578
<b>Total assets</b>	<b>3,982</b>	<b>587</b>	<b>4,851</b>	<b>683</b>	<b>1,496</b>	<b>203</b>	<b>8,030</b>	<b>310</b>	<b>3,904</b>	<b>20,450</b>	<b>1,177</b>	<b>44,673</b>
<b>LIABILITIES AND FUND BALANCE</b>												
Liabilities:												
Accounts payable and accrued liabilities	1,419	587	517	31	780	203	-	132	91	-	-	243
Due to other funds	-	-	-	-	-	-	-	-	1,772	7,598	64	12,971
Due to component unit	-	-	-	-	-	-	-	-	27	-	-	27
Other liabilities	-	-	-	-	542	-	-	-	2	-	-	544
Deferred grant revenue	2,538	-	4,334	-	174	-	7,360	-	297	-	-	14,703
Deferred revenue	25	-	-	-	-	-	-	-	-	-	-	677
<b>Total liabilities</b>	<b>3,982</b>	<b>587</b>	<b>4,851</b>	<b>683</b>	<b>1,496</b>	<b>203</b>	<b>7,360</b>	<b>112</b>	<b>2,189</b>	<b>7,598</b>	<b>64</b>	<b>29,165</b>
Fund balance, reserved	-	-	-	-	-	-	670	138	715	12,852	1,113	15,508
Fund balance, unreserved	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total fund balances</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>670</b>	<b>138</b>	<b>715</b>	<b>12,852</b>	<b>1,113</b>	<b>15,508</b>
<b>Total liabilities and fund balance</b>	<b>3,982</b>	<b>587</b>	<b>4,851</b>	<b>683</b>	<b>1,496</b>	<b>203</b>	<b>8,030</b>	<b>310</b>	<b>3,904</b>	<b>20,450</b>	<b>1,177</b>	<b>44,673</b>

	Capital Projects			Debt Service			Permanent Funds			Total
	Capital Projects Fund	Debt Service Fund	Sequoyah Endowment	Debt Service Fund	Sequoyah Endowment	Gamman Education Trust	Capital Projects Fund	Debt Service Fund	Sequoyah Endowment	
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	2,241	99	228	99	228	334	2,241	99	228	334
<b>Total</b>	<b>2,241</b>	<b>99</b>	<b>228</b>	<b>99</b>	<b>228</b>	<b>334</b>	<b>2,241</b>	<b>99</b>	<b>228</b>	<b>334</b>

CHEROKEE NATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED, SEPTEMBER 30, 2006  
(Dollars in Thousands)

	Special Revenue Funds										Capital Projects			Debt Service			Permanent Funds			Total Nonmajor Governmental Funds
	Talking Leaves Corp	Self Governance DOI-Other	Diabetes	Food Distribution	Women, Infants, & Children	Head Start	PL 102-477	Title VI	Other Grants	Tribal Judgment Funds	Tribal Trusts	Total	Capital Projects Fund	Debt Service Fund	Sequoyah Endowment	Gammon Education Trust	Total			
Revenues:																				
Intergovernmental	\$ 11,219	\$ 6,647	\$ 7,220	\$ 6,102	\$ 5,031	\$ 6,354	\$ 10,886	\$ 1,738	\$ 16,302	\$ -	\$ 69,761	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 69,761	\$ -		
Interest	203	1	162	-	18	6	371	-	30	840	52	-	-	-	10	15	25	3,446	-	
Dividends from component units	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other	675	-	-	47	-	1,422	385	2,854	1,573	805	7,935	-	-	-	-	-	-	-	7,935	-
Total revenues	12,097	6,648	7,382	6,149	5,049	7,782	11,642	4,592	17,905	1,643	81,117	-	-	-	10	15	25	81,142	-	-
Expenditures:																				
Current operating:																				
Tribal government	2,576	-	-	-	-	-	-	-	469	(10)	3,040	-	-	-	-	-	-	-	3,040	-
Health services	-	-	7,363	-	5,038	-	-	-	5,668	-	18,069	-	-	-	-	-	-	-	18,069	-
Education services	3,931	6,523	-	-	-	7,787	2,321	1,802	-	-	22,364	264	-	-	2	-	-	22,392	2	-
Human services	2,986	-	-	6,577	-	-	9,162	5,511	-	-	24,236	-	-	-	-	-	-	24,236	-	-
Community services	415	-	-	-	-	-	-	1,375	-	-	1,790	-	-	-	-	-	-	1,790	-	-
Other tribal services	2,238	-	-	-	-	-	-	2,679	-	-	4,917	-	-	-	-	-	-	4,917	-	-
Debt services:																				
Principal	-	-	-	-	-	-	-	2,854	-	-	2,854	-	-	-	-	-	-	2,854	-	-
Interest	-	-	-	-	-	-	-	1,747	-	-	1,747	-	-	1	-	-	-	1,748	-	-
Capital outlay	22	125	19	-	11	-	-	-	330	-	507	-	-	-	-	-	-	13,739	-	-
Total expenditures	12,168	6,648	7,382	6,577	5,049	7,787	11,483	4,601	17,834	(10)	79,524	-	-	-	2	-	-	14,029	2	-
Excess (deficiency) of revenues over expenditures	(71)	-	-	(428)	-	(5)	159	(9)	71	1,653	1,593	(14,029)	(1)	-	8	15	23	(12,414)	-	-
Other financing sources (uses):																				
Issuance of long-term debt	-	-	-	-	-	-	-	-	-	-	-	4,260	-	-	-	-	-	4,260	-	-
Fees associated with debt issuance	-	-	-	-	-	-	-	-	-	-	-	128	-	-	-	-	128	-	-	-
Insurance recoveries	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5
Transfers in	500	-	-	428	-	-	211	297	297	(2,558)	1,436	9,117	100	-	-	-	10,653	-	-	-
Transfers out	(429)	-	-	-	-	-	-	(41)	(41)	-	(3,029)	-	-	-	-	-	-	(3,029)	-	-
Total other financing sources (uses)	71	-	-	428	-	5	211	256	(2,558)	-	(1,587)	13,565	100	-	-	-	12,018	-	-	-
Excess (deficiency) of revenues and other financing sources over expenditures	-	-	-	-	-	-	370	(9)	327	(995)	6	(524)	99	-	8	15	23	(396)	-	-
Fund Balance, October 1, 2005	-	-	-	-	-	-	306	167	388	13,757	890	-	-	-	185	319	504	16,006	-	-
Fund Balance, September 30, 2006	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 670	\$ 158	\$ 715	\$ 12,852	\$ 1,113	\$ (524)	\$ 99	\$ -	\$ 193	\$ 314	\$ 527	\$ 15,610	\$ -	\$ -

# NONMAJOR ENTERPRISE FUNDS

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

- **Tsa-La-Gi Apartments** – Utilized to account for the operations of the Nation’s federally subsidized low-income housing apartment complex, whose operating focus is to provide housing for qualified tribal members and to recover costs of operations.
- **Landfill Operations** – Utilized to account for the solid waste landfill operations of the Nation located in Stilwell, Oklahoma.
- **EDTA** - Established by Tribal Council Legislative Act 36-89 as a mechanism to promote economic development. Its mission is to provide opportunities for income generation through economic development, to provide loans for business creation/expansion, and to provide loans to qualified individuals whom have traditionally been denied through conventional lending sources.
- **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, Cherokee Navigation, and Child Care. The beginning balance of Childhood Development Center fund was combined with Other Enterprises and in 2006 the activities of Childhood Development Center were transferred and are reported in the nonmajor governmental funds.

**CHEROKEE NATION****COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS**

SEPTEMBER 30, 2006

(Dollars in Thousands)

	<u>Tsa-La-Gi Apartments</u>	<u>Landfill Operations</u>	<u>EDTA</u>	<u>Other Enterprises</u>	<u>Total</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 73	\$ 216	\$ 1,551	\$ -	\$ 1,840
Accounts receivable, net	-	718	-	-	718
Due from other funds	-	-	-	72	72
Notes receivable, current	-	-	238	-	238
Other current assets	2	-	-	-	2
Total current assets	<u>75</u>	<u>934</u>	<u>1,789</u>	<u>72</u>	<u>2,870</u>
Noncurrent assets:					
Restricted cash and cash equivalents	221	1,829	-	-	2,050
Long-term notes receivable	-	-	1,606	-	1,606
Capital assets, net	700	6,061	-	-	6,761
Total noncurrent assets	<u>921</u>	<u>7,890</u>	<u>1,606</u>	<u>-</u>	<u>10,417</u>
Total assets	<u>996</u>	<u>8,824</u>	<u>3,395</u>	<u>72</u>	<u>13,287</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued liabilities	36	13	-	-	49
Current portion of long-term debt	86	184	42	-	312
Due to other funds	50	2,110	50	-	2,210
Other current liabilities	18	-	-	-	18
Total current liabilities	<u>190</u>	<u>2,307</u>	<u>92</u>	<u>-</u>	<u>2,589</u>
Noncurrent liabilities:					
Long-term unearned revenue	-	300	-	-	300
Long-term debt	488	1,350	1,497	-	3,335
Other liabilities	-	1,909	-	-	1,909
Total noncurrent liabilities	<u>488</u>	<u>3,559</u>	<u>1,497</u>	<u>-</u>	<u>5,544</u>
Total liabilities	<u>678</u>	<u>5,866</u>	<u>1,589</u>	<u>-</u>	<u>8,133</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	126	4,527	-	-	4,653
Unrestricted net assets/(deficit)	192	(1,569)	1,806	72	501
Total net assets	<u>\$ 318</u>	<u>\$ 2,958</u>	<u>\$ 1,806</u>	<u>\$ 72</u>	<u>\$ 5,154</u>

**CHEROKEE NATION**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006  
(Dollars in Thousands)**

	Business-type Activities- Enterprise Funds				Total
	Tsa-La-Gi Apartments	Landfill Operations	EDTA	Other Enterprises	
Operating revenues:					
Property rentals	\$ 486	\$ -	\$ -	\$ -	\$ 486
Charges for services and goods	-	1,216	-	6	1,222
Other	6	-	23	-	29
Total operating revenues	<u>492</u>	<u>1,216</u>	<u>23</u>	<u>6</u>	<u>1,737</u>
Operating expenses:					
Salaries and wages	37	584	-	5	626
Other services and charges	245	161	170	1	577
Materials and supplies	15	3	-	-	18
Depreciation and amortization	51	918	-	-	969
Total operating expenses	<u>348</u>	<u>1,666</u>	<u>170</u>	<u>6</u>	<u>2,190</u>
Operating income (loss)	<u>144</u>	<u>(450)</u>	<u>(147)</u>		<u>(453)</u>
Nonoperating revenues (expenses):					
Grant revenues	-	-	119	-	119
Interest income	8	166	160	-	334
Interest expense	(42)	(81)	(12)	-	(135)
Other sources	-	69	-	-	69
Gain/(loss) on sale of fixed assets	-	-	-	72	72
Net nonoperating revenues (expenses)	<u>(34)</u>	<u>154</u>	<u>267</u>	<u>72</u>	<u>459</u>
Income (loss) before transfers	110	(296)	120	72	6
Transfers in	-	-	91	-	91
Transfers out	-	(42)	(1)	(91)	(134)
Change in net assets	<u>110</u>	<u>(338)</u>	<u>210</u>	<u>(19)</u>	<u>(37)</u>
Total net assets - beginning	<u>208</u>	<u>3,296</u>	<u>1,596</u>	<u>91</u>	<u>5,191</u>
Total net assets - ending	<u>\$ 318</u>	<u>\$ 2,958</u>	<u>\$ 1,806</u>	<u>\$ 72</u>	<u>\$ 5,154</u>

# CHEROKEE NATION

## COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2006 (Dollars in Thousands)

	Business-type Activities- Enterprise Funds				
	Tsa-La-Gi Apartments	Landfill Operations	EDTA	Other Enterprises	Total
<b>Cash flows from operating activities:</b>					
Receipts from customers	\$ 486	\$ 1,216	\$ -	\$ 6	\$ 1,708
Payments to suppliers	(255)	(222)	(170)	(1)	(648)
Payments to employees	(37)	(584)	-	(5)	(626)
Internal activity, net - payments (to)/from other funds	-	(605)	50	(114)	(669)
Program loans	-	-	(442)	-	(442)
Other receipts	6	-	23	1	30
Net cash provided/(used) by operating activities	<u>200</u>	<u>(195)</u>	<u>(539)</u>	<u>(113)</u>	<u>(647)</u>
<b>Cash flows from noncapital financing activities</b>					
Operating subsidies and transfers (to)/from other funds		(42)	90	(91)	(43)
Grant revenues		-	119	-	119
Receipts from other sources		69	-	-	69
Net cash provided by noncapital financing activities		<u>27</u>	<u>209</u>	<u>(91)</u>	<u>145</u>
<b>Cash flows from capital and related financing activities</b>					
Purchases of capital assets	-	(879)	-	-	(879)
Proceeds from capital debt	-	1,300	483	-	1,783
Principal paid on capital debt	(82)	(442)	(42)	-	(566)
Interest paid on capital debt	(42)	(81)	(12)	-	(135)
Proceeds from sales of capital assets	-	-	-	72	72
Net cash (used) by capital and related financing activities	<u>(124)</u>	<u>(102)</u>	<u>429</u>	<u>72</u>	<u>275</u>
<b>Cash flows from investing activities</b>					
Proceeds from sale of investments	11	-	-	-	11
Interest and dividends received	8	166	160	-	334
Net cash provided by investing activities	<u>19</u>	<u>166</u>	<u>160</u>	<u>-</u>	<u>345</u>
Net increase (decrease) in cash and cash equivalents	95	(104)	259	(132)	118
Cash and cash equivalents, October 1, 2005	<u>199</u>	<u>2,149</u>	<u>1,292</u>	<u>132</u>	<u>3,772</u>
Cash and cash equivalents, September 30, 2006	<u>\$ 294</u>	<u>\$ 2,045</u>	<u>\$ 1,551</u>	<u>\$ -</u>	<u>\$ 3,890</u>
<b>Cash and cash equivalents consist of:</b>					
Unrestricted cash and cash equivalents	\$ 73	\$ 216	\$ 1,551	\$ -	\$ 1,840
Restricted cash and cash equivalents	221	1,829	-	-	2,050
	<u>\$ 294</u>	<u>\$ 2,045</u>	<u>\$ 1,551</u>	<u>\$ -</u>	<u>\$ 3,890</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 144	\$ (450)	\$ (147)	\$ -	\$ (453)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	51	918	-	-	969
Change in assets and liabilities:					
Receivables and due from (to) other funds	-	(363)	(442)	(57)	(862)
Liabilities and other payables	5	(300)	50	(56)	(301)
Net cash provided by operating activities	<u>\$ 200</u>	<u>\$ (195)</u>	<u>\$ (539)</u>	<u>\$ (113)</u>	<u>\$ (647)</u>



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# 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. The management of this fund transferred to CNI in 2006.

**CHEROKEE NATION**

**COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS**  
**SEPTEMBER 30, 2006**  
**(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>
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ -	\$ 1	\$ 1,152	\$ 8	\$ -	\$ 1,161
Accounts receivable, net	-	-	17	224	-	241
Inventories	-	-	-	111	-	111
Other current assets	-	8	-	155	-	163
Total current assets	<u>-</u>	<u>9</u>	<u>1,169</u>	<u>498</u>	<u>-</u>	<u>1,676</u>
Noncurrent assets:						
Restricted cash & cash equivalents	972	27	-	-	-	999
Capital assets, net	9,671	300	-	1,675	-	11,646
Total noncurrent assets	<u>10,643</u>	<u>327</u>	<u>-</u>	<u>1,675</u>	<u>-</u>	<u>12,645</u>
Total assets	<u>10,643</u>	<u>336</u>	<u>1,169</u>	<u>2,173</u>	<u>-</u>	<u>14,321</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and accrued liabilities	-	-	3,544	101	-	3,645
Current portion of long-term debt	476	-	-	-	-	476
Current portion of capital leases	11	84	-	253	-	348
Due to other funds	771	125	1,027	720	-	2,643
Compensated absences	-	-	3,884	-	-	3,884
Other current liabilities	-	-	2,013	-	-	2,013
Total current liabilities	<u>1,258</u>	<u>209</u>	<u>10,468</u>	<u>1,074</u>	<u>-</u>	<u>13,009</u>
Noncurrent liabilities:						
Long-term debt	3,058	-	-	-	-	3,058
Capital leases payable	23	229	-	-	-	252
Total noncurrent liabilities	<u>3,081</u>	<u>229</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,310</u>
Total liabilities	<u>4,339</u>	<u>438</u>	<u>10,468</u>	<u>1,074</u>	<u>-</u>	<u>16,319</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	6,103	(13)	-	1,422	-	7,512
Restricted	972	-	-	-	-	972
Unrestricted net assets/(deficit)	(771)	(89)	(9,299)	(323)	-	(10,482)
Total net assets/(deficit)	<u>\$ 6,304</u>	<u>\$ (102)</u>	<u>\$ (9,299)</u>	<u>\$ 1,099</u>	<u>\$ -</u>	<u>\$ (1,998)</u>

**CHEROKEE NATION**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006  
(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>
<b>Operating revenues:</b>						
Property rentals	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ 3
Charges for services and goods	2,500	-	34,374	22,497	-	59,371
Other	111	28	-	82	-	221
<b>Total operating revenues</b>	<u>2,614</u>	<u>28</u>	<u>34,374</u>	<u>22,579</u>	<u>-</u>	<u>59,595</u>
<b>Operating expenses:</b>						
Cost of sales	-	-	-	(4)	-	(4)
Salaries and wages	1,246	2	37,280	11,806	41	50,375
Other services and charges	858	59	-	9,483	52	10,452
Materials and supplies	112	21	-	1,522	-	1,655
Depreciation and amortization	376	142	-	829	-	1,347
<b>Total operating expenses</b>	<u>2,592</u>	<u>224</u>	<u>37,280</u>	<u>23,636</u>	<u>93</u>	<u>63,825</u>
<b>Operating income (loss)</b>	<u>22</u>	<u>(196)</u>	<u>(2,906)</u>	<u>(1,057)</u>	<u>(93)</u>	<u>(4,230)</u>
<b>Nonoperating revenues (expenses):</b>						
Interest income	24	1	-	-	-	25
Interest expense	(142)	(14)	-	-	-	(156)
Gain/(loss) on sale of capital assets	-	138	-	-	-	138
<b>Net nonoperating revenues (expenses)</b>	<u>(118)</u>	<u>125</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7</u>
<b>Income (loss) before transfers</b>	<u>(96)</u>	<u>(71)</u>	<u>(2,906)</u>	<u>(1,057)</u>	<u>(93)</u>	<u>(4,223)</u>
<b>Transfers in</b>						
Change in net assets	(96)	(71)	(2,906)	(1,057)	538	538
<b>Total net assets/(deficit) - beginning</b>	<u>6,400</u>	<u>(31)</u>	<u>(6,393)</u>	<u>2,156</u>	<u>(445)</u>	<u>1,687</u>
<b>Total net assets/(deficit) - ending</b>	<u>\$ 6,304</u>	<u>\$ (102)</u>	<u>\$ (9,299)</u>	<u>\$ 1,099</u>	<u>\$ -</u>	<u>\$ (1,998)</u>

**CHEROKEE NATION**

**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2006  
(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>
<b>Cash flows from operating activities:</b>						
Receipts from customers	\$ 2,503	\$ -	\$ 34,374	\$ 22,497	\$ -	\$ 59,374
Payments to suppliers	(809)	(60)	-	(11,432)	-	(12,301)
Payments to employees	(1,246)	(2)	(37,280)	(11,806)	(41)	(50,375)
Internal activity, net - payments (to)/from other funds	(51)	20	2,221	1,356	(476)	3,070
Other receipts	-	-	1,469	-	(21)	1,448
Net cash provided/(used) by operating activities	<u>397</u>	<u>(42)</u>	<u>784</u>	<u>615</u>	<u>(538)</u>	<u>1,216</u>
<b>Cash flows from noncapital financing activities</b>						
Operating subsidies and transfers (to)/from other funds	-	-	-	-	538	538
<b>Cash flows from capital and related financing activities</b>						
Purchases of capital assets	-	-	-	(868)	-	(868)
Proceeds from capital debt	-	-	-	758	-	758
Principal paid on capital debt	(469)	(82)	-	(505)	-	(1,056)
Interest paid on capital debt	(142)	(14)	-	-	-	(156)
Proceeds from sales of capital assets	162	138	-	-	-	300
Net cash provided/(used) by capital and related financing activities	<u>(449)</u>	<u>42</u>	<u>-</u>	<u>(615)</u>	<u>-</u>	<u>(1,022)</u>
<b>Cash flows from investing activities</b>						
Interest and dividends	24	1	-	-	-	25
Net increase (decrease) in cash and cash equivalents	<u>(28)</u>	<u>1</u>	<u>784</u>	<u>-</u>	<u>-</u>	<u>757</u>
Cash and cash equivalents, October 1, 2005	<u>1,000</u>	<u>27</u>	<u>368</u>	<u>8</u>	<u>-</u>	<u>1,403</u>
Cash and cash equivalents, September 30, 2006	<u>\$ 972</u>	<u>\$ 28</u>	<u>\$ 1,152</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 2,160</u>
<b>Cash and cash equivalents consist of:</b>						
Unrestricted cash and cash equivalents	\$ -	\$ 1	\$ 1,152	\$ 8	\$ -	\$ 1,161
Restricted cash and cash equivalents	972	27	-	-	-	999
	<u>\$ 972</u>	<u>\$ 28</u>	<u>\$ 1,152</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 2,160</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>						
Operating income (loss)	\$ 22	\$ (196)	\$ (2,906)	\$ (1,057)	\$ (93)	\$ (4,230)
<b>Adjustments to reconcile operating income to net cash provided (used) by operating activities:</b>						
Depreciation expense	376	142	-	829	-	1,347
<b>Change in assets and liabilities:</b>						
Receivables and due from (to) other funds	-	-	1,180	627	73	1,880
Inventories	-	-	-	7	-	7
Other current assets	50	(8)	-	(33)	-	9
Accounts and other payables	(51)	20	2,510	242	(518)	2,203
Net cash provided by operating activities	<u>\$ 397</u>	<u>\$ (42)</u>	<u>\$ 784</u>	<u>\$ 615</u>	<u>\$ (538)</u>	<u>\$ 1,216</u>

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# COMPONENT UNIT



# CHEROKEE NATION

## COMBINING SCHEDULE OF NET ASSETS - CHEROKEE NATION BUSINESSES, LLC

SEPTEMBER 30, 2006

(Dollars in Thousands)

	Cherokee Nation Businesses LLC (CNB)	Cherokee Technologies LLC (CT)	Cherokee Nation Enterprises LLC (CNE)	Combination/ Elimination	Total
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ 225	\$ -	\$ 65,489	\$ -	\$ 65,714
Restricted cash		-	1,960	-	1,960
Investments		-	14,998	-	14,998
Receivables, net	300	-	4,176	-	4,476
Inventories		-	1,845	-	1,845
Notes receivable	2,955	2,000	98	(2,955)	2,098
Other current assets	117	-	2,393	-	2,510
Total current assets	3,597	2,000	90,959	(2,955)	93,601
Notes receivable		-	1,141	-	1,141
Investment in partnerships/joint ventures	187	1	-	-	188
Capital assets, net	198	-	151,629	-	151,827
Total assets	3,982	2,001	243,729	(2,955)	246,757
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued liabilities	718	1	35,700	-	36,419
Current portion of notes payable	-	2,955	-	(2,955)	-
Total current liabilities	718	2,956	35,700	(2,955)	36,419
Total liabilities	718	2,956	35,700	(2,955)	36,419
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	136	-	146,966	-	147,102
Restricted for:					
Construction	-	-	1,500	-	1,500
Unrestricted net assets/(deficit)	3,128	(955)	59,563	-	61,736
Total net assets (deficit)	<u>\$ 3,264</u>	<u>\$ (955)</u>	<u>\$ 208,029</u>	<u>\$ -</u>	<u>\$ 210,338</u>

## CHEROKEE NATION

COMBINING SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT) -  
 CHEROKEE NATION BUSINESSES, LLC  
 FOR THE YEAR ENDED SEPTEMBER 30, 2006  
 (Dollars in Thousands)

	Cherokee Nation Businesses LLC (CNB)	Cherokee Technologies LLC (CT)	Cherokee Nation Enterprises LLC (CNE)	Combination/ Elimination	Total
Operating revenues:					
Charges for services and goods	\$ 2,800	\$ -	\$ 353,117	\$ (2,500)	\$ 353,417
Gain (loss) on investments in joint ventures	196	(984)			(788)
Total operating revenues	<u>2,996</u>	<u>(984)</u>	<u>353,117</u>	<u>(2,500)</u>	<u>352,629</u>
Operating expenses:					
Cost of sales/operations		-	84,320	-	84,320
Salaries and wages	3,027	-	101,015	-	104,042
Other services and charges	817	-	66,209	(2,500)	64,526
Depreciation and amortization	10	-	16,205	-	16,215
Total operating expenses	<u>3,854</u>	<u>-</u>	<u>267,749</u>	<u>(2,500)</u>	<u>269,103</u>
Operating income (loss)	<u>(858)</u>	<u>(984)</u>	<u>85,368</u>	<u>-</u>	<u>83,526</u>
Nonoperating revenues (expenses)					
Interest/investment income	260	298	2,332	(532)	2,358
Interest expense	(272)	(260)	(80)	532	(80)
Gain/(loss) on disposal of assets	-		(462)	-	(462)
Other, net	(7)			-	(7)
Net nonoperating revenues (expenses)	<u>(19)</u>	<u>38</u>	<u>1,790</u>	<u>-</u>	<u>1,809</u>
Net Income (loss)	<u>(877)</u>	<u>(946)</u>	<u>87,158</u>	<u>-</u>	<u>85,335</u>
Dividends to primary government			(25,444)	-	(25,444)
Transfers to CNB	5,174		(5,174)		
Capital grants to primary government	-		(411)		(411)
Change in net assets	<u>4,297</u>	<u>(946)</u>	<u>56,129</u>		<u>59,480</u>
Net assets, beginning of year	<u>(1,033)</u>	<u>(9)</u>	<u>151,900</u>	<u>-</u>	<u>150,858</u>
Net assets (deficit), end of year	<u>\$ 3,264</u>	<u>\$ (955)</u>	<u>\$ 208,029</u>	<u>\$ -</u>	<u>\$ 210,338</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, 2006  
(Dollars in Thousands)**

	Budgeted Amounts		Actual	Variance with Final Budget over/(under)
	Original	Final		
Operating revenues:				
Property rentals	\$ -	\$ -	\$ 486	\$ 486
Charges for services and goods	2,561	2,415	1,222	(1,193)
Other	-	7	29	22
Total operating revenues	<u>2,561</u>	<u>2,422</u>	<u>1,737</u>	<u>(685)</u>
Operating expenses:				
Salaries and wages	1,959	957	626	(331)
Other services and charges	1,083	364	577	213
Materials and supplies	103	-	18	18
Depreciation and amortization	1,035	1,035	969	(66)
Total operating expenses	<u>4,180</u>	<u>2,356</u>	<u>2,190</u>	<u>(166)</u>
Operating income (loss)	<u>(1,619)</u>	<u>66</u>	<u>(453)</u>	<u>(519)</u>
Nonoperating revenues(expenses):				
Grant revenues	-	-	119	119
Interest income	-	94	334	240
Interest expense	-	(110)	(135)	(25)
Other sources	-	-	69	69
Gain/(loss) on sale of fixed assets	-	-	72	72
Net nonoperating revenue (expenses)	<u>-</u>	<u>(16)</u>	<u>459</u>	<u>475</u>
Income (loss) before transfers	(1,619)	50	6	(44)
Transfers in	1,370	11	91	80
Transfers out	-	(144)	(134)	(10)
Changes in net assets	<u>(249)</u>	<u>(83)</u>	<u>(37)</u>	<u>46</u>
Total net assets - beginning	5,191	5,191	5,191	-
Total net assets - ending	<u>\$ 4,942</u>	<u>\$ 5,108</u>	<u>5,154</u>	<u>\$ 46</u>
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(81)	
Net assets of Enterprise Funds			<u>\$ 5,073</u>	

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# STATISTICAL SECTION

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

- **Financial Trends** – Schedules which contain trend information to assist users in understanding how the government's financial position has changed over time.
- **Revenue Capacity** – Schedules which contain information relating to the government's most significant tax revenue sources.
- **Demographic and Economic Information** – Demographic and economic indicators to enable users to understand the environment in which the government operates.
- **Operating Information** – Schedules which contain service and program data to help users understand how the information contained in the government's financial report relates to the governmental activities performed.

Sources: Unless otherwise noted, the information in these schedules is derived from the Comprehensive Annual Financial Reports for the relevant year. The Nation implemented GASB 34 in 2002; schedules presenting government-wide information include information beginning in that year.

# CHEROKEE NATION

## SCHEDULE OF NET ASSETS BY COMPONENT LAST FIVE FISCAL YEARS (Dollars in Thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
Governmental Activities					
Invested in capital assets, net of related debt	\$ 26,714	\$ 25,655	\$ 29,403	\$ 35,969	\$ 47,627
Restricted	41,483	20,421	20,691	16,822	23,250
Unrestricted	<u>1,133</u>	<u>53,444</u>	<u>65,566</u>	<u>66,627</u>	<u>69,039</u>
Total governmental activities net assets	<u><u>69,330</u></u>	<u><u>99,520</u></u>	<u><u>115,660</u></u>	<u><u>119,418</u></u>	<u><u>139,916</u></u>
Business-type activities					
Invested in capital assets, net of related debt	3,460	4,839	4,388	5,519	4,653
Restricted	414	-	-	-	-
Unrestricted	<u>361</u>	<u>(372)</u>	<u>(685)</u>	<u>(361)</u>	<u>420</u>
Total business-type activities net assets	<u><u>4,235</u></u>	<u><u>4,467</u></u>	<u><u>3,703</u></u>	<u><u>5,158</u></u>	<u><u>5,073</u></u>
Primary government					
Invested in capital assets, net of related debt	30,174	30,494	33,791	41,488	52,280
Restricted	41,897	20,421	20,691	16,822	23,250
Unrestricted	<u>1,494</u>	<u>53,072</u>	<u>64,881</u>	<u>66,266</u>	<u>69,459</u>
Total primary government net assets	<u><u>\$ 73,565</u></u>	<u><u>\$ 103,987</u></u>	<u><u>\$ 119,363</u></u>	<u><u>\$ 124,576</u></u>	<u><u>\$ 144,989</u></u>



**CHEROKEE NATION**

**CHANGES IN NET ASSETS**  
**LAST FIVE FISCAL YEARS (Dollars in Thousands)**  
*(accrual basis of accounting)*

	2002	2003	2004	2005	2006
<b>Expenses</b>					
Governmental activities:					
Tribal Government	\$ 9,373	\$ 12,075	\$ 13,627	\$ 17,023	\$ 16,433
Health Services	62,235	67,356	74,995	79,344	87,061
Education Services	29,120	32,423	32,901	33,429	36,588
Human Services	25,203	24,671	24,160	24,824	27,307
Community Services	45,478	51,252	35,163	35,060	42,867
Other Tribal Services	5,431	8,750	11,193	10,623	12,712
Interest on long-term debt	235	689	970	1,651	1,975
Total governmental activities expenses	177,075	197,216	193,009	201,954	224,943
Business-type activities:					
Tsa-La-Gi Apartments	418	359	356	352	390
Cherokee Trails Golf Club	170	192	39	-	-
Landfill Operations	1,459	1,982	1,917	2,252	1,794
EDTA	-	-	-	127	182
Ranch Operations	169	52	6	-	-
Child Development	1,091	1,358	1,235	1,048	-
Other Enterprises	3	1	-	15	7
Total business-type activities expenses	3,310	3,944	3,553	3,794	2,373
Total primary government expenses	\$ 180,385	\$ 201,160	\$ 196,562	\$ 205,748	\$ 227,316
<b>Program Revenues</b>					
Governmental activities:					
Charges for services:					
Tribal Government	\$ -	\$ -	\$ -	\$ -	\$ 4
Other Tribal Services	451	405	1,237	2,001	2,572
Operating grants and contributions	103,642	113,394	100,209	104,278	108,177
Capital grants and contributions	-	-	-	-	411
Total governmental activities program revenues	104,093	113,799	101,446	106,279	111,164
Business-type activities:					
Charges for services:					
Tsa-La-Gi Apartments	392	384	437	475	492
Cherokee Trails Golf Club	84	70	6	-	-
Landfill Operations	2,327	2,109	1,355	1,937	1,216
EDTA	-	-	-	14	23
Ranch Operations	165	32	-	-	-
Child Development Centers	1,118	1,354	1,237	766	-
Other Enterprises	11	12	10	-	6
Operating grants and contributions	-	-	-	104	119
Total business-type activities program revenues	4,097	3,961	3,045	3,296	1,856
Total primary government program revenues	\$ 108,190	\$ 117,760	\$ 104,491	\$ 109,575	\$ 113,020
<b>Net (Expense)/Revenue</b>					
Governmental activities	\$ (72,982)	\$ (83,417)	\$ (91,563)	\$ (95,675)	\$ (113,779)
Business-type activities	787	17	(508)	(498)	(517)
Total primary government net expense	\$ (72,195)	\$ (83,400)	\$ (92,071)	\$ (96,173)	\$ (114,296)
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities:					
Motor fuel tax	7,294	7,468	7,576	8,094	7,406
Motor vehicle tax	3,342	4,961	5,929	6,382	7,188
Tobacco tax	1,890	2,052	2,142	3,133	7,063
Gaming tax and licenses	480	611	262	-	-
Sales tax	75	310	249	686	1,144
Grants and contributions not restricted to specific programs	58,236	66,249	65,223	62,015	78,849
Unrestricted investment earnings	1,793	1,563	1,588	3,011	5,941
Indirect cost settlement	254	646	11,634	-	-
Dividends from component units	4,050	8,725	11,717	17,919	25,444
Arkansas River Drybed Lands Settlement	-	20,000	-	-	-
Miscellaneous revenue	634	1,144	1,232	898	1,199
Equity interest in joint venture	-	-	-	184	-
Gain/(loss) on disposals	-	-	1	-	-
Transfers	(1,589)	(122)	150	(2,889)	43
Total governmental activities	76,459	113,607	107,703	99,433	134,277
Business-type activities:					
Unrestricted investment earnings	6	61	19	52	334
Miscellaneous revenue	-	-	-	-	69
Gain/(loss) on disposals	-	32	(125)	-	72
Transfers	1,589	122	(150)	1,901	(43)
Total business-type activities	1,595	215	(256)	1,953	432
Total primary government	\$ 78,054	\$ 113,822	\$ 107,447	\$ 101,386	\$ 134,709
<b>Change in Net Assets</b>					
Governmental activities	\$ 3,477	\$ 30,190	\$ 16,140	\$ 3,758	\$ 20,498
Business-type activities	2,382	232	(764)	1,455	(85)
Total primary government	\$ 5,859	\$ 30,422	\$ 15,376	\$ 5,213	\$ 20,413

# CHEROKEE NATION

## GOVERNMENTAL ACTIVITIES - TAX REVENUES BY SOURCE

### LAST FIVE FISCAL YEARS

(Dollars in Thousands)

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<u>Year</u>	<u>Motor Fuel Tax</u>	<u>Motor Vehicle Tax</u>	<u>Tobacco Tax</u>	<u>Sales Tax</u>	<u>Total</u>
2006	\$ 7,406	\$ 7,188	\$ 7,063	\$ 1,144	\$ 22,801
2005	8,094	6,382	3,133	686	18,295
2004	7,576	5,929	2,142	249	15,896
2003	7,468	4,961	2,052	310	14,791
2002	7,294	3,342	1,890	75	12,601

# CHEROKEE NATION

## FUND BALANCES, GOVERNMENTAL FUNDS LAST FIVE FISCAL YEARS (Dollars in Thousands)

	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>
General Fund					
Reserved	\$ 25,781	\$ 30,535	\$ 33,287	\$ 34,792	\$ 36,282
Unreserved	<u>1,501</u>	<u>4,638</u>	<u>10,726</u>	<u>24,175</u>	<u>36,576</u>
Total general fund	<u>\$ 27,282</u>	<u>\$ 35,173</u>	<u>\$ 44,013</u>	<u>\$ 58,967</u>	<u>\$ 72,858</u>
All Other Governmental Funds					
Reserved	\$ 15,702	\$ 16,696	\$ 21,372	\$ 21,696	\$ 24,572
Unreserved, reported in:					
Special revenue funds	-	-	583	583	-
Capital projects fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(524)</u>
Total all other governmental funds	<u>\$ 15,702</u>	<u>\$ 16,696</u>	<u>\$ 21,955</u>	<u>\$ 22,279</u>	<u>\$ 24,048</u>

**CHEROKEE NATION**

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**

**LAST FIVE FISCAL YEARS (Dollars in Thousands)**

*(modified accrual basis of accounting)*

	2002	2003	2004	2005	2006
<b>Revenues</b>					
Intergovernmental	\$ 151,117	\$ 167,594	\$ 150,516	\$ 147,048	\$ 166,252
Property rentals	451	394	585	461	513
Motor fuel tax revenues	7,294	7,468	7,576	8,676	7,406
Tax and license revenues	5,788	7,934	9,234	11,741	17,458
Interest	2,145	2,320	3,480	5,238	9,651
Trust fund income	29	24	90	79	104
Indirect cost settlement	254	-	646	8,314	2,201
Dividends from component units	4,050	8,725	11,717	17,919	25,444
Other	11,011	11,773	19,916	27,185	22,202
Total revenues	<u>182,139</u>	<u>206,232</u>	<u>203,760</u>	<u>226,661</u>	<u>251,231</u>
<b>Expenditures</b>					
Tribal Government	9,964	10,484	13,645	15,956	15,029
Health Services	62,822	66,732	73,248	77,829	84,528
Education Services	29,463	31,936	32,158	32,567	35,788
Human Services	25,269	24,363	23,748	24,516	26,839
Community Services	41,631	61,537	44,486	46,643	42,420
Other tribal services	5,309	8,472	9,658	10,834	11,789
Capital outlay	5,289	3,017	1,934	9,659	18,162
Debt service					
Principal	313	332	1,272	1,685	3,117
Interest	71	454	797	1,472	1,819
Total expenditures	<u>180,131</u>	<u>207,327</u>	<u>200,946</u>	<u>221,161</u>	<u>239,491</u>
Excess of revenues over (under) expenditures	2,008	(1,095)	2,814	5,500	11,740
<b>Other Financing Sources (Uses)</b>					
Issuance of long-term debt	-	10,245	10,189	13,231	4,260
Fees associated with debt issuance	-	-	-	-	128
Insurance recoveries	-	-	-	-	27
Other proceeds	-	-	976	-	-
Transfers in	3,703	1,867	2,163	5,900	17,425
Transfers out	(8,994)	(2,132)	(2,043)	(9,353)	(17,920)
Total other financing sources (uses)	<u>(5,291)</u>	<u>9,980</u>	<u>11,285</u>	<u>9,778</u>	<u>3,920</u>
Net change in fund balances	<u>\$ (3,283)</u>	<u>\$ 8,885</u>	<u>\$ 14,099</u>	<u>\$ 15,278</u>	<u>\$ 15,660</u>
Debt service as a percentage of noncapital expenditures	0.22%	0.39%	1.05%	1.52%	2.28%

# CHEROKEE NATION

## GOVERNMENTAL ACTIVITIES - MOTOR VEHICLE TAX RECEIPTS LAST FIVE FISCAL YEARS

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<u>Year</u>	<u>Motor Vehicle Registrations</u>	<u>Boat/ Motor Registrations</u>	<u>Total All Registrations</u>
2006	19,436	570	20,006
2005	17,803	587	18,390
2004	18,396	718	19,114
2003	18,099	671	18,770
2002	18,094	324	18,418

**CHEROKEE NATION**

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

Fiscal Year	Charges for Services	Operating			Capital			Motor Vehicle Tax	Motor Fuels Tax	Other Tax Revenues	Unrestricted			Investment Earnings	Dividends from Components		Indirect Cost		Miscellaneous	Equity Interest in Joint Venture	Gain/(loss) on disposals	Total
		Grants & Contributions	Grants & Contributions	Grants & Contributions	Grants & Contributions	Grants & Contributions	Grants & Contributions				Settlement	Cost										
2006	\$ 4,313	\$ 108,296	\$ 411	\$ 7,406	\$ 7,188	\$ 8,207	\$ 78,849	\$ 6,275	\$ 25,444	\$ -	\$ -	\$ 1,268	\$ -	\$ -	\$ 72	\$ -	\$ -	\$ 184	\$ -	\$ 247,729		
2005	5,193	104,382	-	8,094	6,382	3,819	62,015	3,063	17,919	-	-	898	-	-	-	-	-	184	-	211,949		
2004	4,282	100,209	-	7,576	5,929	2,653	65,223	1,607	11,717	11,634	1,108	1,108	-	-	-	-	-	-	-	211,938		
2003	4,366	113,394	-	7,468	4,961	2,973	66,249	1,624	8,725	646	1,144	1,144	-	-	-	-	-	-	-	211,550		
2002	4,548	103,642	-	7,294	3,342	2,445	58,236	1,799	4,050	254	634	634	-	-	-	-	-	-	-	186,244		
2001	4,289	120,105	-	6,895	-	2,062	-	3,282	4,300	4,377	5,081	5,081	-	-	-	-	-	-	-	150,391		
2000	4,125	91,174	-	7,118	-	1,940	-	2,611	4,100	-	4,929	4,929	-	-	-	-	-	-	-	115,997		
1999	4,681	86,360	-	6,932	-	1,772	-	1,818	2,410	-	4,468	4,468	-	-	-	-	-	-	-	108,441		
1998	4,928	84,722	-	6,230	-	1,598	-	1,202	1,865	-	7,306	7,306	-	-	-	-	-	-	-	107,851		
1997	4,683	82,597	-	5,084	-	1,662	-	1,049	2,800	-	3,544	3,544	-	-	-	-	-	-	-	101,419		

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 2006 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	EDTA	Childhood Development Center	Other Enterprises	Total
2006	\$ 16,433	\$ 87,061	\$ 36,588	\$ 27,307	\$ 42,867	\$ 12,712	\$ 1,975	\$ 390	\$ -	\$ 1,794	\$ -	\$ 182	\$ -	\$ 7	\$ 227,316
2005	17,023	79,344	33,429	24,824	35,060	10,623	1,651	352	-	2,252	-	1,115	1,048	15	206,736
2004	13,627	74,995	32,901	24,160	35,163	11,193	970	356	39	1,917	6	-	1,235	-	196,562
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

2002 through 2006 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	<u>116,598</u>	<u>1,066,024</u>	<u>11%</u>

Source: U.S. Census Bureau: 2000



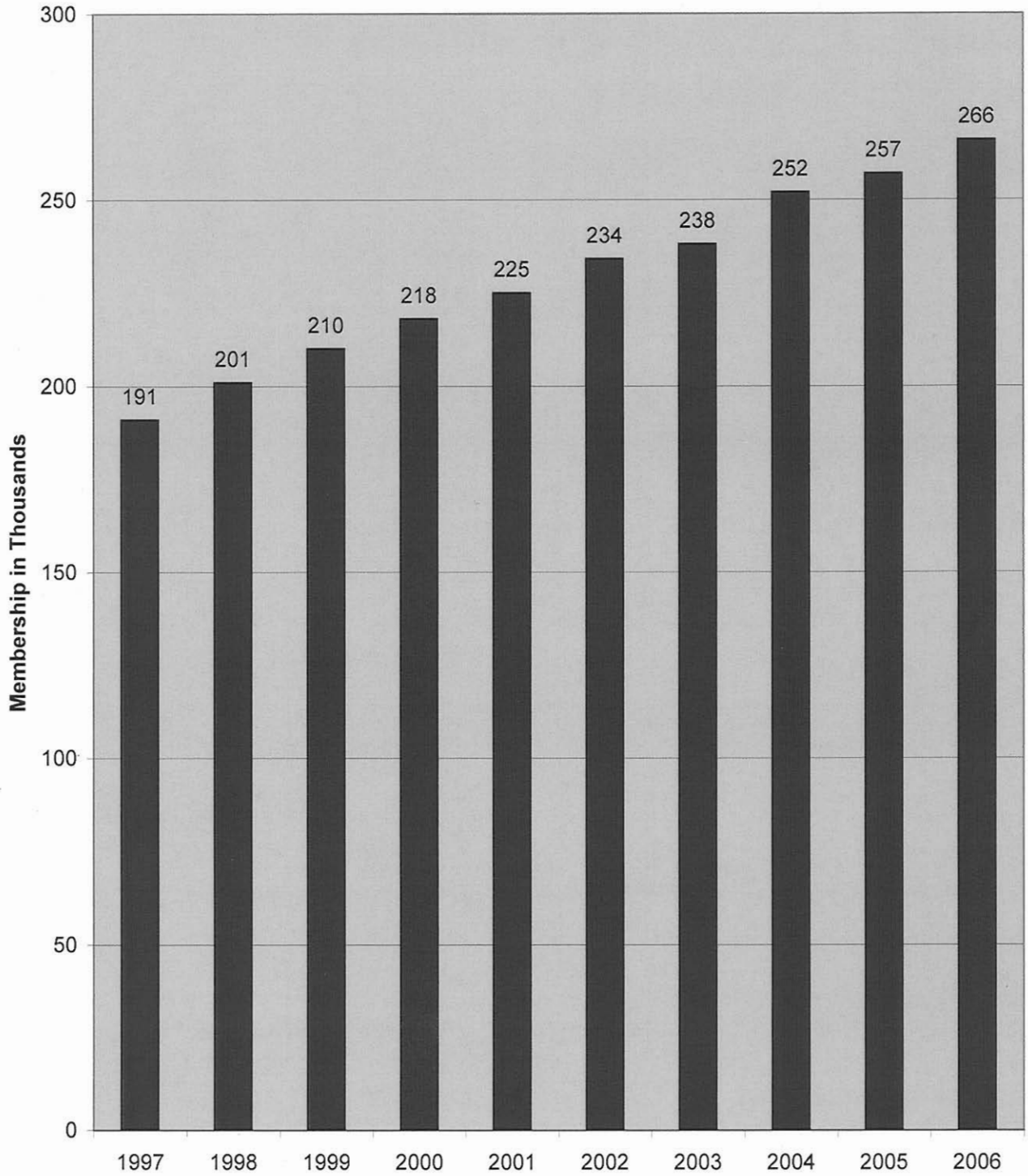
# CHEROKEE NATION

## TRIBAL LAND BASE (ACRES) BY COUNTY AS OF SEPTEMBER 30, 2006

County	Tribal Land	Government Land	Restricted Individual	Total Acres
<u>Cherokee Nation:</u>				
Oklahoma:				
Adair	13,070	19	10,411	23,500
Cherokee	1,202	324	9,439	10,965
Craig	273	-	1,843	2,116
Delaware	24,784	10	6,503	31,297
McIntosh	-	-	596	596
Mayes	357	10	5,364	5,731
Muskogee	95	-	2,342	2,437
Nowata	10	-	610	620
Ottawa	-	-	79	79
Rogers	16	-	801	817
Sequoyah	1,632	44	5,623	7,299
Tulsa	-	-	204	204
Wagoner	-	-	225	225
Washington	-	-	1,719	1,719
Arkansas Riverbed	14,715	-	-	14,715
<u>Counties Outside Territorial Boundaries:</u>				
Oklahoma:				
Kay	4,230	-	-	4,230
Atoka	10	-	-	10
Choctaw	40	-	-	40
Pittsburg	10	-	-	10
Stephens	80	-	-	80
Texas:				
Red River	629	-	-	629
Dallas	5	-	-	5
Total	<u>61,158</u>	<u>407</u>	<u>45,759</u>	<u>107,324</u>

Source: Cherokee Nation Land Department

**CHEROKEE NATION**  
**Tribal Membership Growth**



Source: Tribal Registration Department

# CHEROKEE NATION

## TRIBAL MEMBERSHIP BY DISTRICT

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District	<u>2006</u>
Cherokee	16,116
Craig	6,868
Delaware	12,879
Keeler	13,158
Mayes	10,605
Sequoyah	12,591
Three Rivers	15,021
Trail of Tears	11,376
Will Rogers	10,666
Other	157,481
<b>Total Membership</b>	<u><u>266,761</u></u>

Source: Tribal Registration Department

# CHEROKEE NATION

## GOVERNMENT EMPLOYEES BY FUNCTION

Regular full-time employees only

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	<u>2006</u>
<b>Function:</b>	
Tribal Government	232
Health Services	602
Education Services	397
Human Services	235
Community Services	137
Other Tribal Services	236
<b>Total</b>	<u><u>1,839</u></u>

Source: Financial Resources

# CHEROKEE NATION

## OPERATING INDICATORS BY FUNCTION LAST FOUR FISCAL YEARS (Dollars in Thousands)

Function/Program	2003	2004	2005	2006
<b>Health Services</b>				
Primary provider visits*	122,570	109,379	117,270	121,650
Dental patient visits	24,519	25,482	22,199	21,436
Behavioral health patient visits	8,424	10,148	9,895	9,969
Optometry patient visits	12,802	13,700	13,472	14,259
Pharmacy patient visits	54,585	61,225	69,151	70,937
Other visits**	56,451	72,775	77,307	80,133
Pharmacy prescription filled	386,420	410,909	461,409	474,299
Number of new charts	8,139	8,407	7,166	7,074
Total number of charts	130,049	139,066	149,861	159,128
*Primary provider visits include physician, physician's assistant, nurse practitioner				
** Other visits include: PHN, WIC, education, dietary, laboratory services				
<b>Education Services</b>				
Higher Education applications received	2,140	2,376	2,708	2,569
Higher Education applications funded	1,900	2,085	2,236	2,164
Head Start students	270	260	284	317
Immersion Class students	-	-	-	25
Sequoyah High School students	360	372	382	400
<b>Human Services</b>				
Child Care children served through subsidy	3,869	3,742	3,606	3,708
Child Care contracted providers	1,019	1,075	994	915
Child Care technical assistance calls and visits	5,803	3,083	1,397	1,358
Child Care monitoring visits to caregivers	1,145	1,092	1,122	1,236
Food Distribution - individuals served	140,150	139,588	131,970	111,139
Food Distribution - households served	51,327	52,768	50,892	44,863
Tribal Work Experience program participants	219	308	313	192
Elder Service Advocacy individuals served	1,170	1,236	1,192	1,353
<b>Community Services</b>				
Roads/bridges project miles completed	64.20	97.24	96.01	101.72
Families served through rental assistance	n/a	n/a	2,121	3,695
Families subsidized in Title VI units	n/a	n/a	317	345
Rehabilitation of privately owned homes	n/a	n/a	89	119
Acquired or constructed individual homes for low-income families	n/a	n/a	34	31
<b>Other Tribal Services</b>				
Businesses funded through Commerce programs	n/a	n/a	4	6
Participants enrollments in IDA/YIDA	n/a	n/a	30	28

Source: Departments/programs as listed

# CHEROKEE NATION

## CAPITAL ASSET UTILIZATION BY FUNCTION

### PRIMARY GOVERNMENT

### LAST FOUR FISCAL YEARS

(Net of Depreciation, Dollars in Thousands)

	2003	2004	2005	2006
<b>Governmental activities:</b>				
Tribal Government	\$ 2,232	\$ 3,068	\$ 2,520	\$ 2,969
Health Services	1,911	1,847	2,197	12,883 *
Education Services	619	578	1,098	8,246 *
Human Services	534	436	328	242
Community Services	834	842	1,035	1,384
Other Tribal Services	25,564	27,984	33,620	30,719
Governmental activities, net	<u>\$31,694</u>	<u>\$ 34,755</u>	<u>\$ 40,798</u>	<u>\$ 56,443</u>
<b>Business -type activities:</b>				
Enterprise Funds	\$ 6,314	\$ 5,605	\$ 6,851	\$ 6,761
Business-type activities, net	<u>\$ 6,314</u>	<u>\$ 5,605</u>	<u>\$ 6,851</u>	<u>\$ 6,761</u>

\*In FY 2006, Health Services and Education Services increased due to construction projects

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