

# CHEROKEE NATION

Tahlequah, Oklahoma



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED  
SEPTEMBER 30, 2007

# CHEROKEE NATION

Tahlequah, Oklahoma



## COMPREHENSIVE ANNUAL FINANCIAL REPORT

YEAR ENDED  
SEPTEMBER 30, 2007

Prepared by  
Financial Resources Group

CHEROKEE NATION  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

TABLE OF CONTENTS

I. INTRODUCTORY SECTION

TRANSMITTAL LETTER .....	1
TRIBAL OFFICIALS .....	7
ORGANIZATIONAL STRUCTURE CHART.....	8
CERTIFICATE OF ACHIEVEMENT FOR EXCELLENCE IN FINANCIAL REPORTING.....	9

II. FINANCIAL SECTION

INDEPENDENT ACCOUNTANTS' REPORT ON FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION.....	10
MANAGEMENT'S DISCUSSION & ANALYSIS.....	12

A. BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS	
STATEMENT OF NET ASSETS.....	26
STATEMENT OF ACTIVITIES.....	27
FUND FINANCIAL STATEMENTS	
BALANCE SHEET - GOVERNMENTAL FUNDS.....	28
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS.....	29
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES.....	30
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS) - GENERAL FUND.....	31
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS.....	32
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS .....	33
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS.....	34
COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS.....	35
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - COMPONENT UNITS.....	36
RECAST OF THE COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - COMPONENT UNITS.....	37
NOTES TO BASIC FINANCIAL STATEMENTS .....	38

## TABLE OF CONTENTS (CONTINUED)

### B. OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS	
COMBINING BALANCE SHEET – NONMAJOR GOVERNMENTAL FUNDS .....	78
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN	
FUND BALANCES – NONMAJOR GOVERNMENTAL FUNDS.....	79
NONMAJOR ENTERPRISE FUNDS	
COMBINING STATEMENT OF NET ASSETS – NONMAJOR ENTERPRISE FUNDS.....	80
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND	
NET ASSETS – NONMAJOR ENTERPRISE FUNDS.....	81
COMBINING STATEMENT OF CASH FLOWS – NONMAJOR ENTERPRISE FUNDS.....	82
INTERNAL SERVICE FUNDS	
COMBINING STATEMENT OF NET ASSETS – INTERNAL SERVICE FUNDS .....	83
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND	
NET ASSETS – INTERNAL SERVICE FUNDS.. ..	84
COMBINING STATEMENT OF CASH FLOWS – INTERNAL SERVICE FUNDS.....	85
COMPONENT UNIT	
COMBINING STATEMENT OF NET ASSETS – CHIROKKEE NATION BUSINESSES, LLC.....	86
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN	
NET ASSETS (DEFICIT) – CHIROKKEE NATION BUSINESSES, LLC. ....	87
BUDGETARY INFORMATION	
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS –	
BUDGET AND ACTUAL (GAAP BASIS) – ENTERPRISE FUNDS .....	88

### III. STATISTICAL SECTION

SCHEDULE OF NET ASSETS BY COMPONENT.....	89
CHANGES IN NET ASSETS.....	90
GOVERNMENTAL ACTIVITIES – TAX REVENUES BY SOURCE .....	91
FUND BALANCES, GOVERNMENTAL FUNDS.....	92
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS.....	93
GOVERNMENTAL ACTIVITIES – MOTOR VEHICLE TAX RECEIPTS.....	94
GENERAL GOVERNMENTAL REVENUES BY SOURCE (GAAP BASIS) – LAST TEN FISCAL YEARS .....	95
GENERAL GOVERNMENTAL EXPENSES BY FUNCTION (GAAP BASIS) – LAST TEN FISCAL YEARS.....	96
OUTSTANDING DFB1 BY TYPE.....	97
PLEDGED-REVENUE COVERAGE .....	98
POPULATION BY COUNTY .....	99
TRIBAL LAND BASE (ACRES) BY COUNTY.....	100
TRIBAL CITIZENSHIP GROWTH .....	101
TRIBAL CITIZENSHIP BY DISTRICT.....	102
GOVERNMENT EMPLOYEES BY FUNCTION.....	103
OPERATING INDICATORS BY FUNCTION.....	104
CAPITAL ASSET UTILIZATION BY FUNCTION, PRIMARY GOVERNMENT .....	105

# INTRODUCTORY SECTION

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT



G W Y A D B P  
**CHEROKEE NATION™**  
P.O. Box 948 • Tahlequah, OK 74465-0948 • (918) 453-5000

ᏆᏃᏁᏍᏔᏁ  
Chad "Cornassel" Smith  
Principal Chief  
  
ᏆᏃᏁᏍᏔᏁ  
Joe Grayson, Jr.  
Deputy Principal Chief

March 28, 2008

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, 2007. 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, 2007.

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 Governmental 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 "Cornassel" 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 Council elects a Speaker, currently Meredith A. Frailey and a Deputy Speaker, currently Cara Cowan-Watts. 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 Chief Justice currently is Darrell R. Matlock. 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. The vacated office of the Principal Chief was devolved upon Wilma P. Mankiller, formerly Deputy Chief, for the remainder of the term and she 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. He was re-elected as Principal Chief in the 2003 and 2007 tribal elections and has continued his mission of improving services, increasing cultural awareness and increasing the resources for the betterment of the Cherokee Nation throughout 2007.

### **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's duties and authority are prescribed by law. The Marshal provides law enforcement 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. Communications
  - b. Tribal Relations
  - c. Government Relations
  - d. Direction
2. Service Team
  - a. Health Services
  - b. Career Services
  - c. Commerce Services
  - d. Education Services
  - e. Community Services
  - f. Human Services
  - g. Housing Rehab Services
3. Resources Team
  - a. Financial Resources
  - b. Government Resources
  - c. Management Resources
  - d. Human 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 2007, 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, 2007, 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 for the executive, legislative, and judicial branches of government. The sources of revenue may be based upon estimates. The budgeted expenditures for these funds shall not exceed total estimated revenues and beginning fund balance and net assets. 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 Tribal Council for consideration and passage. Any funds received by the Cherokee Nation, the use of which is determined by the granting or contracting agency (special revenue funds) shall be used only for those purposes and under those conditions for which the funds are made available and such funds are not subject to legal appropriation by the Tribal Council.

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

## **Economic Outlook**

Since fiscal year 2002, the Cherokee Nation primary government has increased its total assets by approximately \$232,000,000 or 171%. 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 ("MD&A") 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**

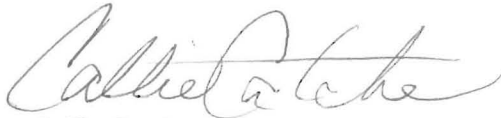
The Government Finance Officers Association of the United States and Canada ("GFOA") awarded a Certificate of Achievement for Excellence in Financial Reporting to Cherokee Nation for its comprehensive annual financial report for the fiscal year ended September 30, 2006. This was the sixth consecutive year that the Nation has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both 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. We are submitting it to the GFOA to determine its eligibility for another certificate.

### **Acknowledgements**

The preparation of the 2007 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 cursive script, appearing to read "Callie Catcher".

Callie Catcher  
Treasurer

**Cherokee Nation  
Tribal Officials  
2007**

**EXECUTIVE BRANCH**

**Chadwick "Corntassle" Smith  
Principal Chief**

**Joe Grayson, Jr.  
Deputy Principal Chief**

---

**LEGISLATIVE BRANCH**

**Meredith A. Frailey  
Speaker  
District 6  
Mayes**

**Cara Cowan-Watts  
Deputy Speaker  
District 7  
Will Rogers**

**Bill John Baker  
District 1  
Cherokee**

**Tina Glory-Jordan  
District 1  
Cherokee**

**S. Joe Crittenden  
District 2  
Trail of Tears**

**Jody Fishinghawk  
District 2  
Trail of Tears**

**David Thornton, Sr.  
District 3  
Sequoyah**

**Janelle Lattimore-Fullbright  
District 3  
Sequoyah**

**Don Garvin  
District 4  
Three Rivers**

**Harley Buzzard  
District 5  
Delaware**

**Curtis Snell  
District 5  
Delaware**

**Chris Soap  
District 6  
Mayes**

**Buel Anglen  
District 8  
Oologah**

**Bradley Cobb  
District 8  
Oologah**

**Chuck Hoskin, Jr.  
District 9  
Craig**

**Jack D. Baker  
At Large**

**Julia Coates  
At Large**

---

**JUDICIAL BRANCH**

**Supreme Court**

**Darrell R. Matlock  
Chief Justice**

**Darrell Dowty  
Justice**

**James G. Wilcoxon  
Justice**

**Kyle B. Haskins  
Justice**

**Troy Wayne Poteete  
Justice**

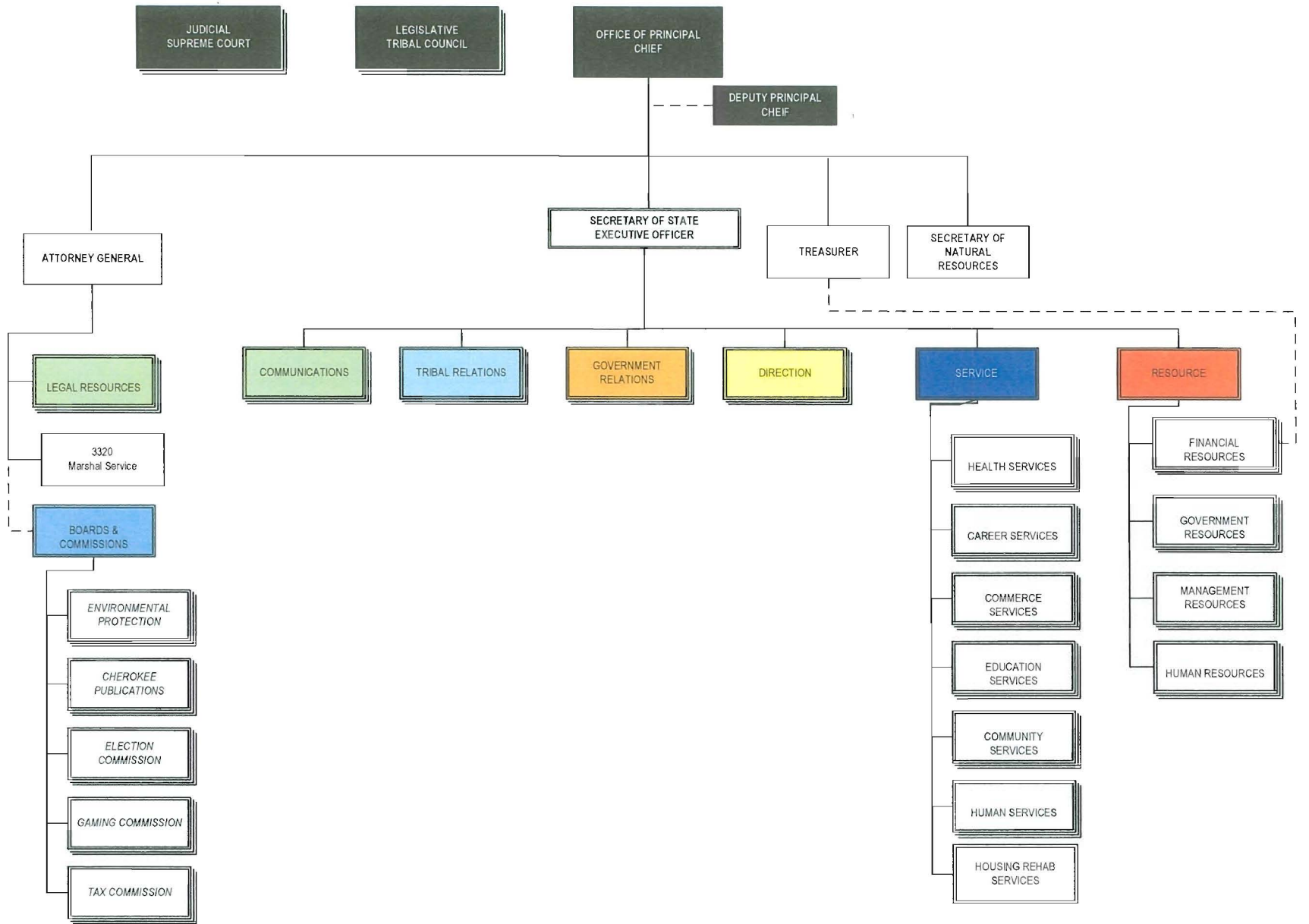
**\*Stacy L. Leeds  
Justice**

**\*Term Expired December 2006**

**District Court**

**John Cripps  
Judge**

**Bart Fite  
Judge**



8



# Cherokee Nation

Organizational Chart  
September 30, 2007

# 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, 2006

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.



*Oliver S. Cox*

President

*Jeffrey R. Egan*

Executive Director

**This Page Intentionally Left Blank**

# FINANCIAL SECTION

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT





## 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, 2007, 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 29% 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, 2007, 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 27, 2008, 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 Principal Chief and Tribal Council  
Cherokee Nation

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 27, 2008

## 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, 2007. 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 2007 by \$165 million (net assets). Of this total amount, \$84 million are unrestricted net assets that may be used to meet the government's ongoing obligations.
- The Nation's overall liabilities increased by approximately \$32 million to \$202 million.
- The net assets increased by \$20 million, which is largely attributable to an increase in dividends from component units, increases in revenues from motor vehicle taxes, other revenues, and unrestricted investment earnings.

### 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 HACN, CNI, CNB, CNHHS and CNCCA can be obtained from their respective administrative offices, or by contacting Cherokee Nation, Office of the Controller.

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

## **Fund Financial Statements**

A fund is a group of related accounts that is used to maintain control over resources that have been separated for specific activities or objectives. The Nation, like state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The fund financial statements focus on individual activities of the Nation's government, providing more detail than the government-wide financial statements. The funds of the Nation are divided into three types, which use different accounting approaches and should be interpreted differently. The three types of funds are:

*Governmental Funds* – Most of the services provided by the Nation are financed and reported through the governmental funds. Governmental funds are used to account for the same governmental functions as reported in the government-wide financial statements. However, unlike the government-wide financial statements, the governmental fund financial statements focus on the near-term inflows and outflows of expendable resources. These fund statements also focus on the balances of expendable resources available at the end of the fiscal year. This approach to financial reporting is known as using the flow of current financial resources and the modified accrual basis of accounting. This method may be useful in evaluating the government's near-term financing requirements. These statements provide a short-term view of the Nation's finances that assist in determining if there will be sufficient financial resources to meet the current needs of the Nation.

Because the focus of the governmental funds is narrower than that of the government-wide 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 28 and 30 of the financial statements.

The Nation maintains four major governmental funds, each presented in a separate column in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances. The Nation's four major governmental funds are the General, Self Governance DOI Roads, Self Governance DHHS, and Housing and Urban Development. In addition, the Nation maintains sixteen 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 28 and 29 of this report.

*Proprietary Funds* – These funds are used to show activities which operate similar to private-sector enterprises. These funds charge fees for goods and services provided to

customers and are known as Proprietary funds. Proprietary funds provide the same type of information as the business-type activities in the government-wide financial statements, except in more detail. Like the government-wide financial statements, proprietary fund financial statements use the accrual basis of accounting. There is no separate reconciliation needed between the proprietary fund financial statements and the government-wide financial statements for business-type activities.

The proprietary funds financial statements can be found on pages 32 - 34 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 80 - 82 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.

The internal service funds combining financial statements can be found on pages 83 - 85 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 Net Assets present detail for each of the five discretely presented component units.

The financial statements for component units can be found on pages 35 and 37 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 38 - 77 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):

	2007	2006	Increase/ (Decrease)	Percentage Increase/ (Decrease)
<b>Major Fund</b>				
General Fund				
Revenues and transfers in	\$ 72,865	\$ 63,289	\$ 9,576	15.1 %
Expenditures and transfers out	64,642	49,398	15,244	30.9 %
Self Governance DOI Roads				
Revenues and transfers in	10,036	11,536	(1,500)	(13.0)%
Expenditures and transfers out	10,036	12,119	(2,083)	(17.2)%
Self Governance DHHS				
Revenues and transfers in	74,750	70,940	3,810	5.4 %
Expenditures and transfers out	77,258	68,547	8,711	12.7 %
Housing and Urban Development				
Revenues and transfers in	32,694	24,295	8,399	34.6 %
Expenditures and transfers out	32,694	24,295	8,399	34.6 %

#### General Fund:

Increases for General Fund revenues are primarily the result of increased dividends from component units due to greater profits from gaming operations, increases in tax and license revenues due to vehicle registrations and gaming commission revenues, and increased interest income. Transfers in increased as a result of funding provided from the Bureau of Indian Affairs for the Sequoyah Multipurpose Center.

General Fund expenditures and transfers out increased in fiscal year 2007 as compared to fiscal year 2006 by a total of \$15.2 million. The largest contributors to the increased

expenditures were new initiatives such as the constitutional defense fund, discretionary incentives for all employees and ice storm relief efforts, increases in existing programs such as contract health and Indian child welfare, increases in debt expenditures on the Sequoyah multipurpose center note, and transfers to the capital projects fund for health clinic construction/expansion.

#### Self Governance DOI Roads:

Both the revenues and transfers in and expenditures and transfers out decreased due to reduction of roads being in the major construction phase and a larger number of roads being in the planning and design phases, as compared to the previous year.

#### Self Governance DHHS:

Self Governance DHHS revenues and transfers in increased in fiscal year 2007 primarily due to an increase in third party revenues resulting from serving more patients due to expanded services and an additional clinic.

Self Governance DHHS expenditures and transfers out increased due to expanded services and an additional clinic and transfers to the Capital Projects fund for clinic construction, expansion and equipment and transfers to the Debt Service fund to service the debt and interest on the Bonds.

#### Housing and Urban Development:

Revenues and transfers in and expenditures and transfers out from HUD increased as a result of increased sub-grants to the Housing Authority of the Cherokee Nation (“HACN”) and the construction and rehabilitation of client homes. These sub-grants are used by HACN to provide affordable housing to citizens.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Net Assets**

As stated earlier, the government-wide financial statements are presented to give a broad overview of the government as a whole. Total assets for the Nation’s governmental activities at fiscal year ending September 30, 2007 were \$360 million. Of the \$360 million, \$80 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, 2007 were \$196 million. Of this amount, approximately \$60 million relates to long-term obligations primarily for the Title VI guaranteed loan program used to provide affordable housing to Tribal citizens and bonds issued to construct two health clinics and expand a third health



clinic. Other liabilities represent accounts payable, 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, 2007 by \$164 million, which is stated as net assets.

The Nation's business-type activities have total assets of \$7 million at September 30, 2007. Of the \$7 million, \$1 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. The majority of this amount is related to long-term obligations primarily to finance capital asset acquisitions, economic development trust authority loans for small business development, and the closure of the Landfill. 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, 2007 by \$1 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		Increase/ (Decrease)
	2007	2006	2007	2006	2007	2006	
Current and other assets	\$ 279,281	\$ 247,888	\$ 6,144	\$ 4,316	\$ 285,425	\$ 252,204	\$ 33,221
Capital assets	80,294	56,443	900	6,761	81,194	63,204	17,990
Total assets	359,575	304,331	7,044	11,077	366,619	315,408	51,211
Long-term debt outstanding	59,754	36,858	3,420	3,647	63,174	40,505	22,669
Other liabilities	136,389	127,557	2,390	2,357	138,779	129,914	8,865
Total liabilities	196,143	164,415	5,810	6,004	201,953	170,419	31,534
Net assets invested in capital assets, net of related debt	53,781	47,627	162	4,653	53,943	52,280	1,663
Restricted	26,278	23,250	-	-	26,278	23,250	3,028
Unrestricted	83,373	69,039	1,072	420	84,445	69,459	14,986
Total net assets	\$ 163,432	\$ 139,916	\$ 1,234	\$ 5,073	\$ 164,666	\$ 144,989	\$ 19,677

\$54 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, \$84 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, 2007, 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 \$20 million, or 14%, during the year. Total revenues for fiscal year ended September 30, 2007 were \$273 million. Total expenses of the Nation were \$253 million, which cover a variety of services. Approximately 36% of the total expenses were for health care for Tribal citizens. In total, governmental-type revenue exceeded expenses by \$24 million resulting in an increase in net assets. Net expenses for business-type activities exceeded revenues by \$3.8 million, resulting in a decrease in net assets. The changes in net assets during 2007 are as follows (in thousands):

	Cherokee Nation's Changes in Net Assets					
	Governmental		Business-Type		Total	
	Activities		Activities			
	2007	2006	2007	2006	2007	2006
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 2,942	\$ 2,576	\$ 2,562	\$ 1,737	\$ 5,504	\$ 4,313
Operating grants and contributions	128,822	108,177	-	119	128,822	108,296
Capital grants and contributions	142	411	-	-	142	411
General revenues:						
Motor fuel tax	7,228	7,406	-	-	7,228	7,406
Motor vehicle tax	7,658	7,188	-	-	7,658	7,188
Tobacco tax and fees	6,956	7,063	-	-	6,956	7,063
Sales tax	1,215	1,144	-	-	1,215	1,144
Unrestricted investment earnings	7,631	5,941	393	334	8,024	6,275
Dividends from Component Units	33,669	25,444	-	-	33,669	25,444
Grants and contributions not restricted to specific programs	76,989	78,849	-	-	76,989	78,849
Miscellaneous	1,375	1,199	81	69	1,456	1,268
Gain/(loss) on disposals	-	-	-	72	-	72
Total revenues	<u>274,627</u>	<u>245,398</u>	<u>3,036</u>	<u>2,331</u>	<u>277,663</u>	<u>247,729</u>
<b>Expenses:</b>						
Tribal government	21,624	16,433	-	-	21,624	16,433
Health services	92,163	87,061	-	-	92,163	87,061
Education services	39,096	36,588	-	-	39,096	36,588
Human services	28,962	27,307	-	-	28,962	27,307
Community services	49,131	42,867	-	-	49,131	42,867
Other tribal services	15,650	12,712	-	-	15,650	12,712
Interest on long-term debt	3,044	1,975	-	-	3,044	1,975
Total governmental expenses	<u>249,670</u>	<u>224,943</u>	<u>-</u>	<u>-</u>	<u>249,670</u>	<u>224,943</u>
Tsa-La-Gi Apartments	-	-	388	390	388	390
Landfill Operations	-	-	2,853	1,794	2,853	1,794
EDTA	-	-	139	182	139	182
Other Enterprises	-	-	18	7	18	7
Total business-type expenses	<u>-</u>	<u>-</u>	<u>3,398</u>	<u>2,373</u>	<u>3,398</u>	<u>2,373</u>
Increase in net assets before transfers	24,957	20,455	(362)	(42)	24,595	20,413
Special Item	-	-	(4,918)	-	(4,918)	-
Transfers	<u>(1,441)</u>	<u>43</u>	<u>1,441</u>	<u>(43)</u>	<u>-</u>	<u>-</u>
Change in net assets	23,516	20,498	(3,839)	(85)	19,677	20,413
Net assets—Beginning 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>
Net assets—End of year	<u>\$ 163,432</u>	<u>\$ 139,916</u>	<u>\$ 1,234</u>	<u>\$ 5,073</u>	<u>\$ 164,666</u>	<u>\$ 144,989</u>

As indicated earlier in this report, the increase in net assets in 2007 is largely attributable to an increase in dividends from component units, increases in revenues from motor vehicle taxes and other revenues, and unrestricted investment earnings. The more significant increases in expenses in fiscal year 07 as compared to fiscal year 06 are as follows:

Tribal government – Established constitutional defense funding, indirect cost shortfall funding, and increased funding of the Get Out the Vote initiative along with discretionary incentives for all employees.

Health services – Increased funding for contract health, cancer, and diabetes treatment and prevention.

Education services – Increased funding for the JOM and Immersion programs.

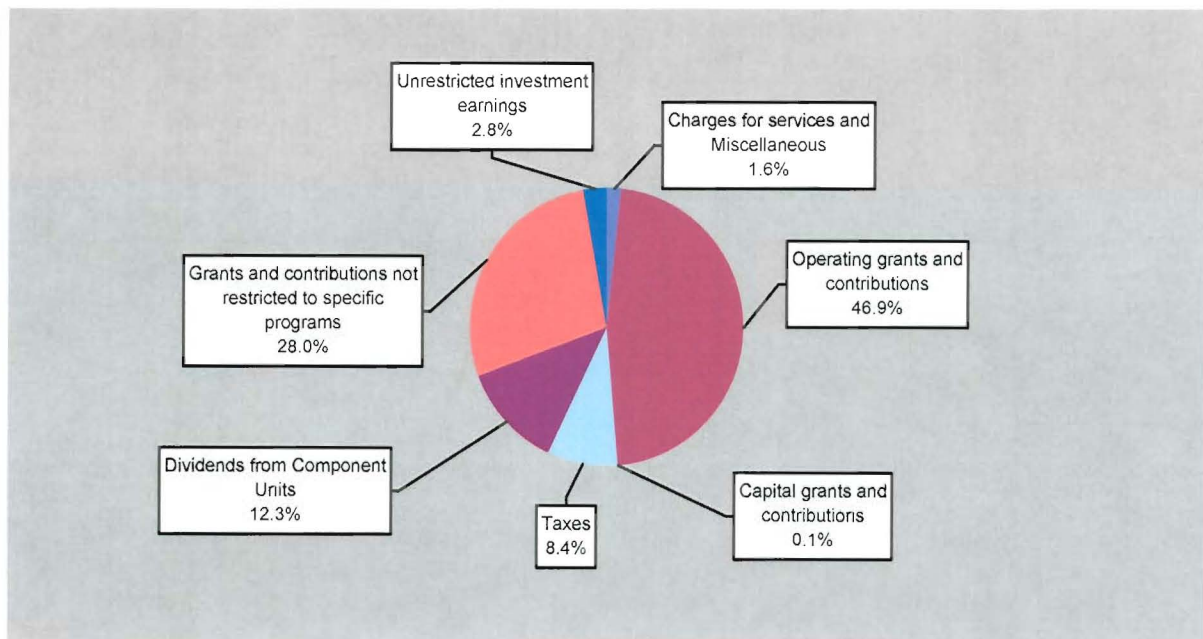
Human services – Increased funding for the Indian Child Welfare program.

Community services – Increased funding for waterlines and housing rehabilitation.

Special Item – This is the write-down of the carrying value of the site development costs for the Landfill due to the Landfill being near capacity at fiscal year end. The landfill is not expected to be re-opened by the primary government.

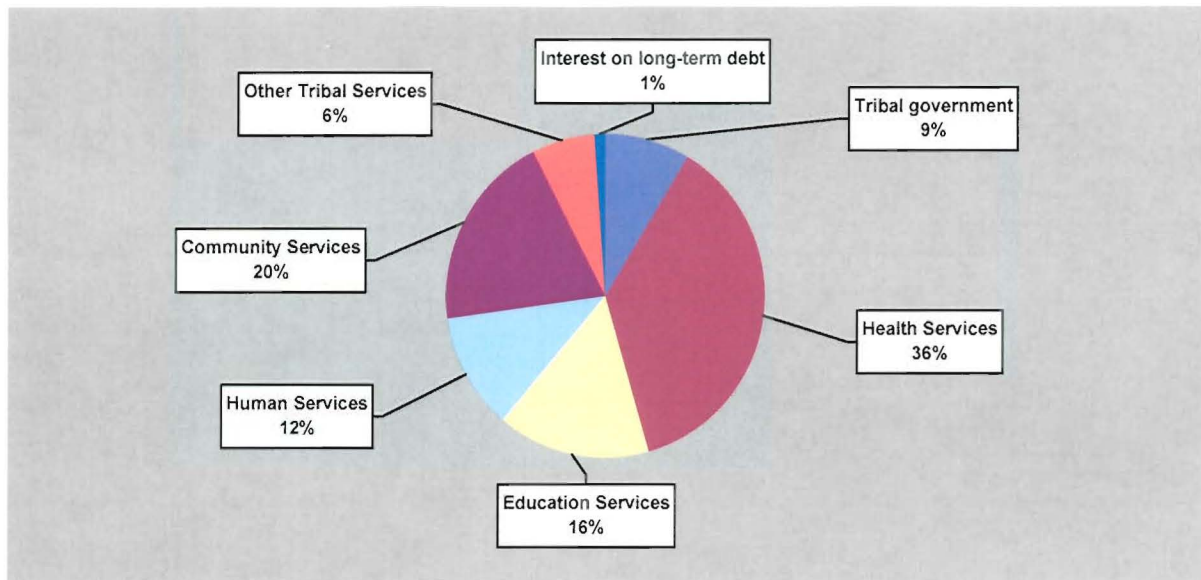
Graph 1 depicts revenues by source for the Governmental Activities of the Nation.

**Graph 1 – Revenue by Source - Governmental Activities**



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

**Graph 2 - Expenses - Governmental Activities**



For more detailed information on the charts presented above, refer to the Statement of Activities on page 27.

### CAPITAL ASSETS AND DEBT ADMINISTRATION

The Nation's capital assets, net of depreciation, at the end of fiscal year 2007 were \$81 million. The Nation has no public domain (infrastructure) fixed assets. The following table presents details of the Nation's capital assets, net of depreciation (dollars in thousands):

**Cherokee Nation's Capital Assets  
(Net of Depreciation)  
September 30, 2007**

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land and improvements	\$ 11,611	\$ 81	\$ 11,692
Construction in Progress	30,006	-	30,006
Buildings and improvements	32,490	588	33,078
Equipment	<u>6,187</u>	<u>231</u>	<u>6,418</u>
Total capital assets	<u>\$ 80,294</u>	<u>\$ 900</u>	<u>\$ 81,194</u>

Additional information on the Nation's capital assets can be found in Note 8 on pages 59 - 61 of this report.

The Nation's long-term debt at the end of fiscal year 2007 was approximately \$63 million, primarily related to Title VI loan proceeds and health clinic construction and expansion. The following is a summary of long-term debt at September 30, 2007 (in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Notes payable	\$ 29,529	\$ 3,211	\$ 32,740
Bonds payable	30,000	-	30,000
Capital leases payable	225	209	434
Total long-term debt	<u>\$ 59,754</u>	<u>\$ 3,420</u>	<u>\$ 63,174</u>

The Nation, as a tribal government, has the ability to incur debt, similar to a state or local government. The Nation entered into an agreement with JP Morgan Chase, which was previously Bank One, guaranteed by the United States Department of Housing and Urban Development'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, 2007, borrowings under this credit facility totaled approximately \$26,348,000.

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

Additional information on the Nation's long-term debt can be found in Note 9 on pages 62 - 67 of this report.

## SIGNIFICANT BUDGET VARIATIONS

The Nation's significant General Fund budget variations in 2007 were as follows (in thousands):

	Original Budget	Final Budget	Variance Increase/ (Decrease)	Percentage Increase/ (Decrease)	Actual	Variance Increase/ (Decrease)	Percentage Increase/ (Decrease)
Revenues:							
Taxes, licenses, and fees	13,487	19,121	5,634	42%	18,196	(925)	(5%)
Interest	454	646	192	42%	3,476	2,830	438%
Dividends from component unit	25,000	30,000	5,000	20%	33,669	3,669	12%
Expenditures							
Tribal government	18,837	22,749	3,912	21%	17,083	(5,666)	(25%)
Health services	8,420	15,807	7,387	88%	9,101	(6,706)	(42%)
Education services	14,965	13,725	(1,240)	(8%)	8,243	(5,482)	(40%)
Human services	2,182	2,928	746	34%	2,694	(234)	(8%)
Community services	9,800	10,691	891	9%	6,729	(3,962)	(37%)
Other tribal services	12,873	18,239	5,366	42%	9,991	(8,248)	(45%)
Debt service	528	2,623	2,095	397%	2,616	(7)	-
Capital outlay	7,540	16,016	8,476	112%	2,920	(13,096)	(82%)

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. Variances between actual and final budget are as follows:

### General Fund Revenues:

Taxes, licenses, and fees - Actual revenues were lower for the Gaming Commission fees. Budgeted revenues for the Gaming Commission are based on projected operational expense requirements for the Commission. Due to staff turnover and vacancies, expenses were less than anticipated, resulting in less revenue.

Interest - Actual income was greater than budgeted primarily due to increases in investment rates and larger cash balances during 2007.

Dividends from component units - 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, currently 30%. Dividend income from component units was higher than budget due to increased profits for the gaming operations.

## General Fund Expenditures:

Tribal government - Actual expenditures were less than budget, in part, due to an over estimation of the need for cash match funds, timing differences for distribution of scholarships which were budgeted, and a reserve established for contingencies.

Health services - Actual expenditures were less than budget mainly due to unexpended funds for contract health services and cancer/diabetes treatment and prevention. Although the funds were obligated at year-end, the services were not yet provided; therefore, the actual expenditures were less than anticipated in the budget.

Education services – Actual expenditures were less than budget due to program budgets not expended at the level originally planned.

Human services – Actual expenditures were less than budget, in part, as a result of funds budgeted for a new language program established in conjunction with the Child Care program, which were not expended.

Community services – Actual expenditures were less than budget mainly due to timing of several projects, including self-help waterlines and road construction.

Other tribal services – The Nation appropriated funds to assist citizens affected by a catastrophic ice storm in January 2007. The actual resources needed for the ice storm relief efforts were less than anticipated. The budget also included reserves for Motor Vehicle revenue allocations which are reserved in the current year and expended in the following year.

Debt service – The budgeted debt service included anticipated debt service on a short-term construction loan related to the Sequoyah multipurpose center. The loan was paid off earlier than anticipated resulting in a slightly lower debt service requirement.

Capital outlay - The Nation's budget included approximately \$11 million for strategic land and building purchases from the proceeds of the Arkansas Riverbed settlement funds. Actual expenditures were less than budget partially due to timing of land and building purchases.

## **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 Nowata and Muskogee. The health construction projects are being funded, in part, through the Nation's 2006 Health Care System Series 2006 Bonds which were issued in December 2006. The debt service for these bonds will be funded from third party revenue from the health clinic operations. The Nation 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 2008 total \$115 million, approximately \$7.6 million less than the final amounts budgeted for fiscal year 2007 due to funding in fiscal year 2007 being transferred to the Capital Projects Fund. In addition, cash match requirements were lower for Special Revenue and Enterprise funds.

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 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.



# BASIC FINANCIAL STATEMENTS

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

# GOVERNMENT-WIDE FINANCIAL STATEMENTS

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

**CHEROKEE NATION**

**STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2007  
(Dollars in Thousands)**

	<b>Primary Government</b>			<b>Component Units</b>
	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>	
<b>Assets</b>				
Cash and cash equivalents	\$ 195,501	\$ 1,889	\$ 197,390	\$ 43,642
Investments	6,777	-	6,777	102,052
Accounts receivable, net	10,364	1	10,365	19,099
Interest receivable	-	-	-	587
Mortgages receivable, Title VI and partnerships, current	-	-	-	552
Due from other funds - Internal Balances	(100)	100	-	-
Due from primary government	-	-	-	2,083
Due from component units	64	-	64	-
Inventories	1,906	-	1,906	13,110
Prepaid expenses	-	-	-	534
Notes receivable	1,992	236	2,228	1,141
Other current assets	3,845	2	3,847	7,278
Restricted cash, cash equivalents and investments	32,921	2,343	35,264	20,966
Long-term notes receivable	24,494	1,573	26,067	13,564
Long-term mortgages receivable, Title VI and partnerships	-	-	-	25,639
Other assets	1,517	-	1,517	2,796
Investment in joint ventures/partnerships	-	-	-	3,322
Capital assets, non depreciable	41,793	81	41,874	61,089
Capital assets, depreciable, net	38,501	819	39,320	207,733
<b>Total assets</b>	<b>359,575</b>	<b>7,044</b>	<b>366,619</b>	<b>525,187</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	21,765	23	21,788	66,006
Due to component units	2,083	-	2,083	-
Compensated absences	4,149	-	4,149	-
Other current liabilities	4,328	17	4,345	-
Unearned revenue	770	-	770	394
Deferred grant revenue	103,294	-	103,294	-
Notes payable and long-term debt				
Due within one year	3,968	1,259	5,227	15,470
Due in more than one year	55,561	1,952	57,513	25,476
Capital leases				
Due within one year	110	90	200	-
Due in more than one year	115	119	234	-
Trust liabilities	-	-	-	9,753
Other noncurrent liabilities	-	2,350	2,350	-
<b>Total liabilities</b>	<b>196,143</b>	<b>5,810</b>	<b>201,953</b>	<b>117,099</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	53,781	162	53,943	258,650
Restricted for				
Motor vehicle tax	5,856	-	5,856	-
Tobacco surtax	4,071	-	4,071	-
Permanent Funds - expendable	128	-	128	-
Permanent Funds - nonexpendable	425	-	425	-
Judgment funds - nonexpendable	2,873	-	2,873	-
Construction	142	-	142	8,306
Arkansas River Drybed Lands Settlement	2,196	-	2,196	-
Debt service	1,347	-	1,347	2,556
Program services	9,240	-	9,240	28,594
Unrestricted net assets	83,373	1,072	84,445	109,982
<b>Total net assets</b>	<b>\$ 163,432</b>	<b>\$ 1,234</b>	<b>\$ 164,666</b>	<b>\$ 408,088</b>

See notes to basic financial statements

**CHEROKEE NATION**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(Dollars in Thousands)**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-type Activities	Total	Component Units
<b>Primary Government:</b>								
Governmental activities:								
Tribal government	\$ 21,624	\$ 4	\$ 1,053	\$ -	\$ (20,567)	\$ -	\$ (20,567)	\$ -
Health services	92,163	-	36,163	-	(56,000)	-	(56,000)	-
Education services	39,096	-	32,905	142	(6,049)	-	(6,049)	-
Human services	28,962	-	23,281	-	(5,681)	-	(5,681)	-
Community services	49,131	-	32,399	-	(16,732)	-	(16,732)	-
Other tribal services	15,650	2,938	3,021	-	(9,691)	-	(9,691)	-
Interest on long-term debt	3,044	-	-	-	(3,044)	-	(3,044)	-
Total governmental activities	249,670	2,942	128,822	142	(117,764)	-	(117,764)	-
Business-type activities:								
Tsa-La-Gi Apartments	388	498	-	-	-	110	110	-
Landfill Operations	2,853	2,044	-	-	-	(809)	(809)	-
EDTA	139	13	-	-	-	(126)	(126)	-
Other Enterprises	18	7	-	-	-	(11)	(11)	-
Total business-type activities	3,398	2,562	-	-	-	(836)	(836)	-
Total primary government	\$ 253,068	\$ 5,504	\$ 128,822	\$ 142	(117,764)	(836)	(118,600)	-
Component Units	\$ 513,029	\$ 560,881	\$ 21,807	\$ -				\$ 69,659
<b>General Revenues:</b>								
Motor fuel tax					7,228	-	7,228	-
Motor vehicle tax					7,658	-	7,658	-
Tobacco tax					6,956	-	6,956	-
Sales tax					1,215	-	1,215	-
Grants and contributions not restricted to specific programs					76,989	-	76,989	-
Unrestricted investment earnings					7,631	393	8,024	7,327
Dividends from component units					33,669	-	33,669	-
Miscellaneous revenue					1,375	81	1,456	98
Gain/(loss) on investments in joint venture					-	-	-	211
Gain/(loss) on disposals					-	-	-	751
Special Item					-	(4,918)	(4,918)	-
Transfers					(1,441)	1,441	-	-
Total general revenues and transfers					141,280	(3,003)	138,277	8,387
Change in net assets					23,516	(3,839)	19,677	78,046
Net assets, beginning					139,916	5,073	144,989	330,042
Net assets, ending					\$ 163,432	\$ 1,234	\$ 164,666	\$ 408,088

# FUND FINANCIAL STATEMENTS

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

**CHEROKEE NATION**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

SEPTEMBER 30, 2007

(Dollars in Thousands)

	General	Self Governance DOI Roads	Self Governance DHHS	Housing & Urban Development	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash and cash equivalents	\$ 61,720	\$ 40,858	\$ 13,266	\$ 37,640	\$ 40,540	\$ 194,024
Investments				-	6,777	6,777
Receivables, net	5,754	2	929	34	3,545	10,164
Due from other funds	15,959	-	-	685	6,880	23,524
Inventories	-	-	-	1,013	744	1,757
Notes receivable	-	-	-	-	138	138
Other current assets	193	-	2,341	3	746	3,283
Restricted cash, cash equivalents and investments	22,330	-	-	-	9,540	31,870
Total assets	<u>\$ 105,956</u>	<u>\$ 40,860</u>	<u>\$ 16,436</u>	<u>\$ 39,375</u>	<u>\$ 68,910</u>	<u>\$ 271,537</u>
<b>LIABILITIES AND FUND BALANCES</b>						
<b>LIABILITIES:</b>						
Accounts payable and accrued liabilities	\$ 12,997	\$ -	\$ 2,847	\$ -	\$ 602	\$ 16,446
Due to other funds	11,812	2,105	4,981	-	7,035	25,933
Due to component units	64	-	-	2,004	15	2,083
Other current liabilities	2	-	-	114	796	912
Deferred grant revenue	-	38,755	3,419	37,257	23,863	103,294
Unearned revenue	-	-	-	-	770	770
Total liabilities	<u>24,875</u>	<u>40,860</u>	<u>11,247</u>	<u>39,375</u>	<u>33,081</u>	<u>149,438</u>
<b>FUND BALANCES:</b>						
<b>Fund balance:</b>						
Reserved by Legislative Act (Note 12)						
Motor fuel tax	28,481	-	-	-	-	28,481
Cash reserve	1,256	-	-	-	-	1,256
Tobacco retailers loan fund	1,000	-	-	-	-	1,000
Arkansas Riverbed settlement	1,414	-	-	-	-	1,414
SHS Multipurpose Center	142	-	-	-	-	142
Tribal judgements and trusts	-	-	-	-	12,720	12,720
Reserved by external sources and enabling legislation:						
Grant programs	-	-	5,189	-	4,051	9,240
Motor vehicle tax	5,856	-	-	-	-	5,856
Tobacco surtax	4,071	-	-	-	-	4,071
Permanent funds	-	-	-	-	553	553
Judgment funds	-	-	-	-	5,069	5,069
Capital Projects Fund	-	-	-	-	12,089	12,089
Reserved for debt service	-	-	-	-	1,347	1,347
Unreserved, undesignated reported in (Note 12):						
General Fund	38,861	-	-	-	-	38,861
Total fund balances	<u>81,081</u>	<u>-</u>	<u>5,189</u>	<u>-</u>	<u>35,829</u>	<u>122,099</u>
Total liabilities and fund balances	<u>\$ 105,956</u>	<u>\$ 40,860</u>	<u>\$ 16,436</u>	<u>\$ 39,375</u>	<u>\$ 68,910</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.

68,631

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

1,438

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

2,013

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

(30,749)

Net assets of governmental activities

\$ 163,432

See notes to basic financial statements

**CHEROKEE NATION**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(Dollars in Thousands)**

	General	Self Governance DOI Roads	Self Governance DHHS	Housing & Urban Development	Other Governmental Funds	Total Governmental Funds
Revenues:						
Intergovernmental	\$ -	\$ 8,217	\$ 57,470	\$ 29,763	\$ 83,058	\$ 178,508
Property rentals	575	-	-	-	-	575
Motor fuel tax revenues	7,228	-	-	-	-	7,228
Tax and license revenues	18,196	-	-	-	-	18,196
Interest	3,476	1,817	1,203	1,833	4,900	13,229
Trust fund income	67	-	-	-	-	67
Dividends from component units	33,669	-	-	-	-	33,669
Health 3rd party revenues	-	-	16,031	-	-	16,031
Other	907	2	44	624	12,518	14,095
Total revenues	<u>64,118</u>	<u>10,036</u>	<u>74,748</u>	<u>32,220</u>	<u>100,476</u>	<u>281,598</u>
Expenditures:						
Current operating:						
Tribal Government	\$17,083	-	391	673	3,230	21,377
Health Services	9,101	-	64,272	-	21,105	94,478
Education Services	8,243	-	-	509	30,866	39,618
Human Services	2,694	-	-	1,209	25,335	29,238
Community Services	6,729	8,139	3,749	28,540	2,161	49,318
Other tribal services	9,991	-	41	986	4,687	15,705
Debt services:						
Principal	2,510	-	-	-	8,402	10,912
Interest	106	-	-	-	2,805	2,911
Capital outlay	2,920	80	121	516	22,553	26,190
Total expenditures	<u>59,377</u>	<u>8,219</u>	<u>68,574</u>	<u>32,433</u>	<u>121,144</u>	<u>289,747</u>
Excess (deficiency) of revenues over expenditures	<u>4,741</u>	<u>1,817</u>	<u>6,174</u>	<u>(213)</u>	<u>(20,668)</u>	<u>(8,149)</u>
Other financing sources (uses):						
Issuance of long-term debt	-	-	-	-	34,660	34,660
Insurance recoveries	8	-	-	-	-	8
Transfers in	8,739	-	2	474	11,422	20,637
Transfers out	(5,265)	(1,817)	(8,684)	(261)	(5,936)	(21,963)
Total other financing sources (uses)	<u>3,482</u>	<u>(1,817)</u>	<u>(8,682)</u>	<u>213</u>	<u>40,146</u>	<u>33,342</u>
Net change in fund balances	8,223	-	(2,508)	-	19,478	25,193
Fund balance, October 1, 2006	72,858	-	7,697	-	16,351	96,906
Fund balance, September 30, 2007	<u>\$ 81,081</u>	<u>\$ -</u>	<u>\$ 5,189</u>	<u>\$ -</u>	<u>\$ 35,829</u>	<u>\$ 122,099</u>

See notes to basic financial statements

# CHEROKEE NATION

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2007 (Dollars in Thousands)

---

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

Net change in fund balances - total governmental funds \$ 25,193

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. 24,279

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. (7,023)

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. (22,156)

Some expenses are reported in the Statement of Activities when incurred and presented in the governmental funds when paid. (707)

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. 3,930

Change in net assets of governmental activities \$ 23,516

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, 2007  
(Dollars in Thousands)**

	Budgeted Amounts			Variance with Final Budget over/(under)
	Original	Final	Actual	
Revenues:				
Property rentals	\$ 317	\$ 448	\$ 575	\$ 127
Motor fuel tax	7,591	7,591	7,228	(363)
Taxes, licenses, and fees	13,487	19,121	18,196	(925)
Interest	454	646	3,476	2,830
Trust fund income	74	111	67	(44)
Dividends from component units	25,000	30,000	33,669	3,669
Other	1,357	1,469	907	(562)
Total revenues	<u>48,280</u>	<u>59,386</u>	<u>64,118</u>	<u>4,732</u>
Expenditures:				
Tribal government	18,837	22,749	17,083	(5,666)
Health services	8,420	15,807	9,101	(6,706)
Education services	14,965	13,725	8,243	(5,482)
Human services	2,182	2,928	2,694	(234)
Community services	9,800	10,691	6,729	(3,962)
Other tribal services	12,873	18,239	9,991	(8,248)
Debt service	528	2,623	2,616	(7)
Capital outlay	7,540	16,016	2,920	(13,096)
Total expenditures	<u>75,145</u>	<u>102,778</u>	<u>59,377</u>	<u>(43,401)</u>
Excess (deficiency) of revenues over expenditures	<u>(26,865)</u>	<u>(43,392)</u>	<u>4,741</u>	<u>48,133</u>
Other financing sources (uses):				
Insurance recoveries	-	-	8	8
Transfers in	16,472	39,272	8,739	(30,533)
Transfers out	(12,723)	(20,097)	(5,265)	14,832
Total other financing sources (uses)	<u>3,749</u>	<u>19,175</u>	<u>3,482</u>	<u>(15,693)</u>
Excess (deficiency) of revenues and other financing sources over expenditures	<u>(23,116)</u>	<u>(24,217)</u>	<u>8,223</u>	<u>32,440</u>
Fund balance, October 1, 2006	72,858	72,858	72,858	-
Fund balance, September 30, 2007	<u>\$ 49,742</u>	<u>\$ 48,641</u>	<u>\$ 81,081</u>	<u>\$ 32,440</u>

See notes to basic financial statements

# CHEROKEE NATION

## STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

SEPTEMBER 30, 2007

(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	\$ 1,889	\$ 1,889	\$ 1,477
Accounts receivable, net	1	1	200
Due from other funds	564	564	3,683
Due from component units	-	-	64
Inventories	-	-	149
Notes receivable, current	236	236	-
Other current assets	2	2	562
Total current assets	<u>2,692</u>	<u>2,692</u>	<u>6,135</u>
Noncurrent assets:			
Restricted cash and cash equivalents	2,343	2,343	1,051
Long-term notes receivable	1,573	1,573	-
Capital assets, net	900	900	11,663
Total noncurrent assets	<u>4,816</u>	<u>4,816</u>	<u>12,714</u>
Total assets	<u>7,508</u>	<u>7,508</u>	<u>18,849</u>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	23	23	4,693
Current portion of long-term debt	1,259	1,259	494
Current portion of capital leases	90	90	110
Due to other funds	464	464	1,374
Compensated absences	-	-	4,149
Other current liabilities	17	17	3,416
Total current liabilities	<u>1,853</u>	<u>1,853</u>	<u>14,236</u>
Noncurrent liabilities:			
Long-term debt	1,952	1,952	2,564
Capital leases payable	119	119	115
Other liabilities	2,271	2,271	-
Total noncurrent liabilities	<u>4,342</u>	<u>4,342</u>	<u>2,679</u>
Total liabilities	<u>6,195</u>	<u>6,195</u>	<u>16,915</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	162	162	8,420
Unrestricted net assets/(deficit)	1,151	1,151	(6,486)
Total net assets/(deficit)	<u>\$ 1,313</u>	<u>1,313</u>	<u>\$ 1,934</u>
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds		(79)	
Net assets of business-type activities		<u>\$ 1,234</u>	
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, 2007

(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	2,051	2,051	65,881
Other	25	25	192
Total operating revenues	<u>2,562</u>	<u>2,562</u>	<u>66,076</u>
Operating expenses:			
Cost of sales	-	-	1
Salaries and wages	925	925	50,177
Other services and charges	1,353	1,353	10,453
Materials and supplies	22	22	968
Depreciation and amortization	944	944	1,119
Total operating expenses	<u>3,244</u>	<u>3,244</u>	<u>62,718</u>
Operating income (loss)	<u>(682)</u>	<u>(682)</u>	<u>3,358</u>
Nonoperating revenues (expenses):			
Interest income	393	393	52
Interest expense	(156)	(156)	(133)
Other sources	81	81	-
Net nonoperating revenues (expenses)	<u>318</u>	<u>318</u>	<u>(81)</u>
Income (loss) before transfers	<u>(364)</u>	<u>(364)</u>	<u>3,277</u>
Capital contribution	-	-	770
Transfers in	1,526	1,526	85
Transfers out	(85)	(85)	(200)
Special Item	(4,918)	(4,918)	-
Change in net assets	<u>(3,841)</u>	<u>(3,841)</u>	<u>3,932</u>
Total net assets - beginning	<u>5,154</u>		<u>(1,998)</u>
Total net assets - ending	<u>\$ 1,313</u>		<u>\$ 1,934</u>
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds		<u>2</u>	
Change in net assets of business-type activities		<u>\$ (3,839)</u>	

See notes to basic financial statements

**CHEROKEE NATION**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(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	\$ 2,954	\$ 2,954	\$ 65,884
Internal activity - payments from other funds	(492)	(492)	478
Payments to suppliers	(1,040)	(1,040)	(9,751)
Payments to employees	(925)	(925)	(50,177)
Internal activity - payments to other funds	(1,746)	(1,746)	(5,494)
Program loans	35	35	-
Other receipts	25	25	841
Net cash provided/(used) by operating activities	<u>(1,189)</u>	<u>(1,189)</u>	<u>1,781</u>
Cash flows from noncapital financing activities			
Transfer from other funds	1,526	1,526	85
Transfer to other funds	(85)	(85)	(200)
Receipts from other sources	81	81	-
Net cash provided by noncapital financing activities	<u>1,522</u>	<u>1,522</u>	<u>(115)</u>
Cash flows from capital and related financing activities			
Purchases of capital assets	(1)	(1)	(366)
Proceeds from capital debt	128	128	-
Principal paid on capital debt	(355)	(355)	(851)
Interest paid on capital debt	(156)	(156)	(133)
Net cash (used) by capital and related financing activities	<u>(384)</u>	<u>(384)</u>	<u>(1,350)</u>
Cash flows from investing activities			
Interest and dividends	393	393	52
Net cash provided by investing activities	<u>393</u>	<u>393</u>	<u>52</u>
Net increase (decrease) in cash and cash equivalents	342	342	368
Cash and cash equivalents, October 1, 2006	3,890	3,890	2,160
Cash and cash equivalents, September 30, 2007	<u>\$ 4,232</u>	<u>\$ 4,232</u>	<u>\$ 2,528</u>
Cash and Cash Equivalents consist of:			
Unrestricted cash and cash equivalents	\$ 1,889	\$ 1,889	\$ 1,477
Restricted cash and cash equivalents	2,343	2,343	1,051
	<u>\$ 4,232</u>	<u>\$ 4,232</u>	<u>\$ 2,528</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	\$ (682)	\$ (682)	\$ 3,358
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	944	944	1,119
Change in assets and liabilities:			
Receivables, net	260	260	(3,706)
Inventories	-	-	(38)
Other current assets	-	-	(399)
Accounts and other payables	(1,711)	(1,711)	1,447
Net cash provided by (used for) operating activities	<u>\$ (1,189)</u>	<u>\$ (1,189)</u>	<u>\$ 1,781</u>
Noncash investing, capital, and financing activities:			
Contributions of capital assets from government	-	-	770
See notes to basic financial statements			

**CHEROKEE NATION**

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

SEPTEMBER 30, 2007

(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	\$ 10,494	\$ 306	\$ 9,743	\$ 22,983	\$ 116	\$ 43,642
Restricted cash	-	-	-	10,172	-	10,172
Investments	16,586	-	-	85,466	-	102,052
Receivables, net	264	-	12,775	5,549	511	19,099
Interest receivable	587	-	-	-	-	587
Mortgages receivable-Title VI	552	-	-	-	-	552
Due from primary government	2,083	-	-	-	-	2,083
Inventories	-	-	10,282	2,828	-	13,110
Prepaid Expenses	150	-	365	-	19	534
Notes receivable	-	-	-	1,141	-	1,141
Other current assets	221	-	-	7,057	-	7,278
Total current assets	30,937	306	33,165	135,196	646	200,250
Restricted investments	10,794	-	-	-	-	10,794
Inventory of homes for sale	-	-	-	-	-	-
Notes receivable	193	-	-	13,371	-	13,564
Mortgages receivable-Title VI and partnerships	25,639	-	-	-	-	25,639
Other assets	1,490	-	237	1,069	-	2,796
Investment in partnerships/joint ventures	1,379	683	-	1,260	-	3,322
Capital assets, net	78,823	4	2,102	187,305	588	268,822
Total assets	149,255	993	35,504	338,201	1,234	525,187
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable and accrued liabilities	1,233	14	12,029	52,307	423	66,006
Deferred revenue	394	-	-	-	-	394
Current portion of notes payable	1,865	-	-	-	-	1,865
Current portion of long-term debt	-	-	13,495	-	110	13,605
Total current liabilities	3,492	14	25,524	52,307	533	81,870
Trust Liabilities	9,753	-	-	-	-	9,753
Notes Payable	24,798	-	-	-	-	24,798
Long-term debt	-	-	327	-	351	678
Total liabilities	38,043	14	25,851	52,307	884	117,099
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	78,682	-	2,102	177,694	172	258,650
Restricted for:						
Debt service	2,556	-	-	-	-	2,556
Construction	-	-	-	8,306	-	8,306
Program services	28,594	-	-	-	-	28,594
Unrestricted net assets	1,380	979	7,551	99,894	178	109,982
Total net assets (deficit)	\$ 111,212	\$ 979	\$ 9,653	\$ 285,894	\$ 350	\$ 408,088

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, 2007  
 (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	\$ 4,272	\$ -	\$ 136,678	\$ 414,678	\$ 4,940	\$ 560,568
Gain (loss) on investments in joint ventures	-	211	-	-	-	211
Other	261	-	-	-	52	313
Total operating revenues	4,533	211	136,678	414,678	4,992	561,092
Operating expenses:						
Cost of sales/operations	7,129	10	115,208	95,440	-	217,787
Salaries and wages	4,587	102	-	122,868	3,132	130,689
Housing assistance	9,371	-	-	-	-	9,371
Other services and charges	541	72	19,330	75,452	1,818	97,213
Depreciation and amortization	4,685	-	-	16,229	44	20,958
Total operating expenses	26,313	184	134,538	309,989	4,994	476,018
Operating income (loss)	(21,780)	27	2,140	104,689	(2)	85,074
Nonoperating revenues (expenses)						
Grant revenue	21,807	-	-	-	-	21,807
Interest/investment income	2,324	1	76	4,923	3	7,327
Interest expense	(1,737)	-	(987)	(332)	(32)	(3,088)
Gain/(loss) on disposal of assets	751	-	-	-	-	751
Other, net	-	-	153	(55)	-	98
Net nonoperating revenues (expenses)	23,145	1	(758)	4,536	(29)	26,895
Income (loss) before income taxes	1,365	28	1,382	109,225	(31)	111,969
Income tax benefit (expense)	-	-	(254)	-	-	(254)
Net Income (loss)	1,365	28	1,128	109,225	(31)	111,715
Dividends to primary government	-	-	-	(33,669)	-	(33,669)
Change in net assets	1,365	28	1,128	75,556	(31)	78,046
Net assets, beginning of year	109,847	951	8,525	210,338	381	330,042
Net assets, end of year	\$ 111,212	\$ 979	\$ 9,653	\$ 285,894	\$ 350	\$ 408,088

See notes to basic financial statements

**CHEROKEE NATION**

**RECAST OF THE COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(Dollars in Thousands)**

	Discretely Presented Component Units	Government-wide - Statement of Activities				
		Program Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Revenues
Operating revenues:						
Charges for services and goods	\$ 560,568	\$ -	\$ 560,568	\$ -	\$ -	\$ -
Gain (loss) on investments in joint ventures	211	-	-	-	-	211
Other	313	-	313	-	-	-
Total operating revenues	561,092	-	560,881	-	-	211
Operating expenses:						
Cost of sales/operations	217,787	217,787	-	-	-	-
Salaries and wages	130,689	130,689	-	-	-	-
Housing assistance	9,371	9,371	-	-	-	-
Other services and charges	97,213	97,213	-	-	-	-
Depreciation and amortization	20,958	20,958	-	-	-	-
Total operating expenses	476,018	476,018	-	-	-	-
Operating income (loss)	85,074	(476,018)	560,881	-	-	211
Nonoperating revenues (expenses)						
Grant revenue	21,807	-	-	21,807	-	-
Interest/investment income	7,327	-	-	-	-	7,327
Interest expense	(3,088)	(3,088)	-	-	-	-
Gain/(loss) on disposal of assets	751	-	-	-	-	751
Other, net	98	-	-	-	-	98
Net nonoperating revenues (expenses)	26,895	(3,088)	-	21,807	-	8,176
Income (loss) before income taxes	111,969	(479,106)	560,881	21,807	-	8,387
Income tax benefit (expense)	(254)	(254)	-	-	-	-
Net Income (loss)	111,715	(479,360)	560,881	21,807	-	8,387
Dividends to primary government	(33,669)	(33,669)	-	-	-	-
Change in net assets	78,046	(513,029)	560,881	21,807	-	8,387
Net assets, beginning of year	330,042					330,042
Net assets, end of year	\$ 408,088	\$ (513,029)	\$ 560,881	\$ 21,807	\$ -	\$ 338,429

See notes to basic financial statements

# NOTES TO BASIC FINANCIAL STATEMENTS

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT



**CHEROKEE NATION  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2007**

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

**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 Tribal 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 (“CNB”)** — CNB, a tribal limited liabilities company, was created June 16, 2004, to provide shared services and strategic coordination to the Nation’s business entities, to diversify the Nation’s business holdings and act as a holding corporation for certain Nation investments in business enterprises. The Nation created CNB and is able to exert significant influence over CNB’s activities as a result of its relationship to CNB and board member appointments. As of September 30, 2007, 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 certain joint ventures. 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. CT held a 51% interest in Cherokee Connex, LLC (“Connex”). CT divested the interest in Connex on February 10, 2007.

**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 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.

CNB directly holds a joint venture interest in Cherokee CRC, LLC as described below:

**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.

**Cherokee Nation Industries, Inc., CND, LLC, and Cherokee Medical Services, LLC (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 fifteen (15) month period ended September 30, 2007.

**Cherokee Nation Home Health Services, Inc. (“CNHHS”)** — 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 (“CNCCA”)** — 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 currently has two initiatives, Program of All-Inclusive Care for the Elderly (“PACE”) and a joint venture, Cherokee Health Partners, LLC (“CHP”). The Nation, through CNCCA, has invested \$832,000 in PACE. The PACE program is 100% owned by CNCCA. CNCCA and the Tahlequah City Hospital entered into a joint venture on September 28, 2004, to create CHP which is 51% owned by CNCCA. CHP 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 CHP 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 \$683,000 for the joint venture at September 30, 2007.

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, CNHHS, and CNCCA 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 unit is 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 a governmental organization created as a separate body whose Board of Directors is appointed by the Principal Chief and confirmed by the Tribal Council. The Nation has the ability to appoint, hire, reassign or dismiss the individuals responsible for management of the programs. EDTA is presented as a proprietary fund in the accompanying financial statements.

**Excluded Organizations** — During 2007, 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 30% for FY2007. 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 Department of Health and Human Services (“DHHS”). These funds are used to administer a number of programs under Indian Health Services (“IHS”) relating to health and human services. 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 2007, the majority of the program expenditures were in the form of subrecipient payments to the HACN, a discretely presented proprietary component unit of the Nation. These expenditures are generally presented as community service expenditures in the accompanying financial statements.
- **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 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 \$134,000. It was established to foster and encourage Cherokee students of at least one-quarter blood quantum to engage in obtaining a graduate education in Environmental Science or Natural Sciences. The income from the trust is available to provide one to two grants annually. The amount of net appreciation on the investment of the Sequoyah Endowment is \$68,000 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 \$291,000 to provide Cherokee higher education scholarships. In accordance with the will, income from the trust is used to provide tuition and related educational, travel and living expenses for Cherokee students with a blood quantum of one-quarter or more. The amount of net appreciation on the investment of the Gammon Education Trust is \$60,000 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 fund balances 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, and indirect cost pool 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 38 - 41 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 Statement No. 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 DHHS. 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 First In, First Out (“FIFO”) method. Food inventories are valued at the cost assigned to such food items by the granting agency.
- The Nation maintains an inventory of housing materials to be used in the construction of the Homeownership Build Packages. This is a new self-help program where clients will provide 60% of the work and will reimburse the Nation for the cost of materials.
- CNB’s inventories consist primarily of food and beverage, hotel supplies, smokeshop, convenience store, gift shop, and gaming inventories and are valued at the lower of cost (FIFO) or market.
- In 2006, CNB entered into a Memorandum of Understanding with Cherokee Nation Home Health Services, Inc. (“CNHHS”) to build a 12,000 square foot “PACE” health care facility on land owned by the Cherokee Nation and located in Tahlequah, Oklahoma. Under the agreement, CNHHS agrees to build



the facility and invoice CNB for the actual direct cost of the construction. In the CNB Statement of Net Assets, this is accounted for under the non-current asset called Inventory held for sale.

- 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 Nation's 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 is removed from the books of the Nation or its component units since the Nation no longer has title to the land. At September 30, 2007, 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.

The Nation accounts for the impairment of capital assets using the guidance provided in GASB Statement No. 42, "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". GASB Statement No. 42 provides a two-step process of identifying potential impairments and testing for impairment. Asset impairment, as defined by GASB Statement No. 42, is a significant, unexpected decline in the service utility of a capital asset. Governments generally hold capital assets because of the services the capital assets provide; consequently, capital asset impairments affect the service utility of the assets. The service utility of a capital asset is the usable capacity that at acquisition was expected to be used to provide service, as distinguished from the level of utilization, which is the portion of the usable capacity currently being used. The events or changes in circumstances that lead to impairments are not considered normal and ordinary. At the time the capital asset was acquired, the event or change in circumstances would not have been expected to occur during the useful life of the capital asset.

**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 depreciates 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. The liability recorded by the Nation at September 30, 2007 is based on the assumption that the Landfill will be operated by CNB, LLC, a discretely presented component unit of the Nation, to its full designed capacity.

## **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. Effective June 30, 2007, CNI converted from a C Corporation to a tribally chartered limited liability company (LLC), which is exempt from federal and state income taxes. As a result no provision for income taxes will be included in future financial statements of CNI. In the taxable year ended June 30, 2007, CNI incurred a decrease in net assets and a net operating loss for federal income tax purposes; therefore, incurred no normal tax expense for the period then ended. At the time of conversion from a C Corporation to a tribally chartered LLC, CNI's existing deferred tax assets and liabilities were required to be eliminated, resulting in an income tax expense of \$254,000 for the 15 month period ended September 30, 2007 as reflected in the accompanying financial statements.

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 Net Assets. Total payments for fiscal year 2007 were approximately \$163,000.

**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 2007, the Cherokee Nation bought back \$725,000 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 ("MVT") revenues and dividends declared by Component Units.

**Program Revenues** — There are two classifications of programmatic revenues for the Nation, grant revenue and program revenue. Grant revenues are revenues from federal, state, and private grants. These revenues are recognized 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, 2007 was approximately \$16 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 include items such as interest expense and losses on disposal of assets.

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

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

**Interest Income-Grants** — The Nation receives certain amounts of advance funding in connection with 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 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 for the executive, legislative, and judicial branches of government. The sources of revenue may be based upon estimates. The budgeted expenditures for these funds shall not exceed total estimated revenues and beginning fund balance and net assets. 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. Management budgets are developed at the accounting unit level. Any amendments to the annual appropriations bill shall be presented to the full Tribal Council for consideration and passage. Any funds received by the Cherokee Nation, the use of which is determined by the granting or contracting agency (special revenue funds) shall be used only for those purposes and under those conditions for which the funds are made available and such funds are not subject to legal appropriation by the Tribal Council.

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

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

**Management Estimates** — The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets 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 \$68,631,000 capital assets used in governmental activities are as follows (dollars in thousands):

Capital assets, net	\$ 80,294
Less: Internal service fund capital assets	<u>(11,663)</u>
Capital assets used in governmental activities	<u>\$ 68,631</u>

The next element of the reconciliation is the debt issuance costs of \$1,438,000 which states “the assets recorded in government-wide financial statements that are not available to pay for current period expenditures, therefore, are not recorded in the funds.”

The final element of that reconciliation, excluding the net assets of the internal service funds of \$2,013,000, explains that “liabilities are not due and payable in the current period and, therefore, not reported in the funds.” The details of this \$30,749,000 difference are as follows (dollars in thousands):

Long-term debt - governmental funds	\$ 30,123
Accounts payable - governmental funds	<u>626</u>
Net Adjustment to decrease fund balance – total governmental funds to arrive at net assets – governmental activities	<u>\$ 30,749</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 \$24,279,000 difference are as follows (dollars in thousands):

Capital expenditures in governmental funds capitalized on government-wide financial statements	\$ 26,190
Depreciation expense	<u>(1,911)</u>
Net adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 24,279</u>

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 \$7,023,000 difference are as follows (dollars in thousands):

Arkansas River Drybed Lands	\$ (5,169)
Amount provided from HACN to the Nation for Title VI payment	<u>(1,854)</u>
Net adjustment to increase net changes in fund balances – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (7,023)</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 \$22,156,000 difference are as follows (dollars in thousands):

Debt principal payments	\$ 10,912
Amount provided from HACN to the Nation for Title VI payment	154
Debt issuance costs	1,438
Proceeds from long term debt - capital projects	<u>(34,660)</u>
Net adjustment to decrease changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ (22,156)</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 \$707,000 difference are as follows (dollars in thousands):

Arkansas River Drybed Lands litigation fee	\$ 200
Additional capital outlay expense and loss on disposal	<u>(907)</u>
Net adjustment to increase net changes in fund balance – total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (707)</u>

The final 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, \$3,930,000 is the net effect of the allocations.”

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

The Internal Service Funds’ Force Accounts and Fringe Pool, and the Enterprise Funds’ Landfill had net deficits of \$204,000, \$5,448,000, and \$1,749,000 respectively, at September 30, 2007. 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. The Nation has provided for a

transfer to the Fringe Pool from the General Fund in the FY08 budgeted appropriations which will reduce the existing deficit.

#### **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. 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 with the exception of Bank of America. At September 30, 2007, there were deposits under collateralized by \$2,186,000 which were corrected as of October 1, 2007. Component units' deposits of \$2,807,000 were uninsured and uncollateralized.

CNE utilizes sweep accounts to minimize exposure to custodial credit risk. At September 30, 2007, the bank balance of CNE's cash in bank was \$641,950, of which \$253,486 was not covered by federal depository insurance or collateralized with securities held by the pledging financial institution in CNE's name.

**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.

CNB and its component units' interest rate risk was minimized by the highly liquid nature of its deposits and investments. At September 30, 2007 all deposits and investments were highly liquid and generally subject to re-pricing on a short-term basis.

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 fund bond investments were rated AAA by Standard & Poor's and Aaa by Moody's Investors Service.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Nation's investment in a single issuer. The Nation's investment policy does not specifically address concentration of credit risk. Of the total primary government's investments, \$1,939,000, or 9%, is invested in Fannie Mae securities, \$1,629,000, or 8%, is invested in Federal Farm Credit Bank securities and \$2,336,000 or 11%, is invested in Freddie Mac securities.

CNB and its component units' follow the investment policy of the Nation in determining investment choices. Deposits in money market mutual funds, which totaled \$18,546,110 at September 30, 2007, were rated AAA by Standard and Poor's. At September 30, 2007, CNE had an investment in the Columbia Strategic Cash Portfolio ("Portfolio") managed by Columbia Management Group, LLC ("Columbia"), the investment management

division of Bank of America Corporation. The Portfolio was rated AAA by Standard and Poor's at September 30, 2007.

On December 10, 2007, CNE was notified by Bank of America that the Portfolio had been closed. CNE's balance in the Portfolio on the date of the closing was approximately \$84.8 million. As a result of the closing, investors in the Portfolio, including CNE, cannot make further investments into the Portfolio and cannot request an immediate cash distribution of their position in the Portfolio. Investors, including CNE, have the option of taking a pro-rata distribution or allowing Columbia to liquidate the assets of the Portfolio and distribute proceeds to investors. As of the date of this report, CNB and CNE management has elected to remain in the Portfolio. A substantial portion of the Portfolio is expected to be distributed to CNE within the next 12 months.

Columbia has informed CNE that there is a potential for loss of principal upon the sale of certain securities, which Columbia estimates should not exceed 2% of the Portfolio balance. In January 2008, after the closing of the Portfolio, CNE received distributions of principal totaling approximately \$26.3 million and has incurred losses on the distributions totaling approximately \$348,000 (1.3% of the distributed value). At January 31, 2008, CNE recorded an additional loss of \$858,001 to adjust the Portfolio balance to its estimated fair value on that date.

As documented elsewhere in the Notes to Basic Financial Statements, CNB's component unit CNE has begun various construction projects and has entered into various related construction commitments. Based on the projected liquidation schedule provided by Columbia, the cash flow generated by current operations and CNE's line of credit with Bank of America, CNE management believes that adequate funding will be available to meet these construction commitments as well as the ongoing operating needs of CNE during fiscal 2008.

At September 30, 2007, CNI had cash and cash equivalents including \$9,417,265 in a repurchase agreement at a bank which is secured by obligations, which are fully guaranteed by the U.S. government or its agencies.

Investments, categorized as to interest and credit risk, at September 30, 2007 were as follows (dollars in thousands):

<b>Investment Type</b>	<b>Investment Maturities (in Years)</b>					<b>Credit Rating Moody's/S&amp;P</b>
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1 - 5</b>	<b>6 - 10</b>	<b>More Than 10</b>	
<b>Primary Government:</b>						
Government sponsored entities	\$ 6,499	\$ 2,399	\$ 1,726	\$ 1,470	\$ 904	Aaa/AAA
Money Market Mutual funds	14,954	14,954	-	-	-	(1)
<b>Total Primary Government</b>	<b>\$ 21,453</b>	<b>\$ 17,353</b>	<b>\$ 1,726</b>	<b>\$ 1,470</b>	<b>\$ 904</b>	
<b>Component Units:</b>						
Money market funds	\$ 1,367	\$ 1,367	\$ -	\$ -	\$ -	(1)
Government Obligations Fund	10,300	10,300	-	-	-	AAA/Aaa
Government sponsored entities	5,620	1,714	3,906	-	-	AAA/Aaa
Repurchase agreement	9,417	9,417	-	-	-	
Strategic Cash Portfolio	85,466	85,466	-	-	-	AAA/Aaa
<b>Total Component Units</b>	<b>\$ 112,170</b>	<b>\$ 108,264</b>	<b>\$ 3,906</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 (in thousands):

Investments as presented above:	\$ 21,453
Plus Certificates of Deposit reported as investments	278
Less Money market funds recorded as Restricted Cash & Cash Equivalents & Investments	(2,196)
Less Money market funds recorded as Cash & Cash Equivalents & Investments	<u>(12,758)</u>
Total investments	<u>\$ 6,777</u>

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

Investments as presented above:	\$ 112,170
Plus Certificates of Deposit reported as investments and restricted investments	20,393
Less Government Obligations recorded as Cash & Cash Equivalents	<u>(19,717)</u>
Total investments	<u>\$ 112,846</u>

**Restricted Cash, Cash Equivalents and Investments** — Restricted cash, cash equivalents and investments and reserved cash at September 30, 2007 included the following:

- \$1,023,000 in unspent loan proceeds in the Internal Leases fund.
- \$275,000 representing tenant security deposits held in trust, replacement reserves and mortgage escrow deposits for Tsa-La-Gi.
- \$2,068,000 relating to the capital replacement and closure and postclosure care costs of the Landfill Operations fund.
- \$28,000 reserved for natural resources replacement.
- \$18,679,000 reflecting the balance in Motor Fuel Tax Education Trust.
- \$3,651,000 relating to the Motor Fuel Tax Scholarship Reserve.
- \$590,000 relating to scholarship funds.
- \$2,196,000 relating to the Arkansas River Drybed Lands Settlement.
- \$5,018,000 in unspent bond proceeds in the Capital Projects Fund.
- \$1,736,000 reflecting the balance of the funds accumulated for Debt Service payments.
- \$2,556,000 held in escrow relating to the Title VI loan with a bank (see Note 9).
- \$8,238,000 relating to HACN's lease-to-own homeownership program.
- \$8,306,000 relating to CNB's construction in progress.
- \$1,866,000 relating to pari-mutuel horse racing activities.

## 5. RECEIVABLES

Receivables at September 30, 2007 consisted of the following (dollars in thousands):

	Primary Government				
	Grants & Contracts Receivable	Accounts Receivable	Interest Receivable	Total	Notes Receivable
Governmental Receivables:					
General					
Motor fuel taxes	\$ -	\$ 1,708	\$ 5	\$ 1,713	\$ -
Other taxes	-	73	-	73	-
Other accounts receivable	-	892	-	892	-
Dividends receivable from component unit	-	3,076	-	3,076	-
Notes receivable, current	-	-	-	-	1,854
Long term notes receivable	-	-	-	-	24,494
Special Revenue Funds:	3,475	785	125	4,385	138
Capital Projects Fund:	-	-	20	20	-
Debt Service Fund:	-	-	5	5	-
Receivables recorded in the Government- wide financial statements that are not recorded in the funds:					
Other - Internal Service Funds	-	200	-	200	-
Receivables of Governmental Activities	<u>\$ 3,475</u>	<u>\$ 6,734</u>	<u>\$ 155</u>	<u>\$ 10,364</u>	<u>\$ 26,486</u>
Business Type Activities:					
Landfill operations	\$ -	\$ 804	\$ -	\$ 804	\$ -
Notes receivable, current	-	-	-	-	385
Long term notes receivable	-	-	-	-	1,573
	-	804	-	804	1,958
Less: Allowance for uncollectible accounts	-	(803)	-	(803)	(149)
Receivables of Business Type Activities	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1,809</u>

	Component Units				
	HACN	CNI	CNB	CNHHS	Total
Receivables:					
Accounts	\$ 327	\$ 12,925	\$ 5,549	\$ 531	\$ 19,332
Interest	587	-	-	-	587
Notes	26,384	-	14,512	-	40,896
Due from primary government	2,083	-	-	-	2,083
	29,381	12,925	20,061	531	62,898
Less: Allowance for uncollectibles	(63)	(150)	-	(20)	(233)
Receivables, net	\$ 29,318	\$ 12,775	\$ 20,061	\$ 511	\$ 62,665

**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, \$803,000 in 2006 and \$5,169,000 in 2007. There was no remaining receivable at September 30, 2007. The Nation has paid \$1,282,000 in legal fees in connection with this settlement. 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 \$2,196,000 is being held in a separate account by the federal government and is not available to the Nation until this contingency is resolved. As a result this portion of the proceeds is reflected as restricted net assets in the accompanying financial statements. Pursuant to an act passed by the Cherokee Nation Tribal Council in 2004 the settlement proceeds, after payment of legal fees and other claims, if any, are reserved for the purchase of land in designated areas.

**Landfill Receivables** — At September 30, 2007, the Nation had a receivable from Indian Country Investments, LLC (“ICI”), the contract operator of the Landfill, of \$783,000, which was comprised of the following components:

Fourth Quarter Host Fees payable to the Nation	\$169,000
Closure/Postclosure Fees payable to the Nation	\$583,000
Operating expense reimbursements due to the Nation	\$ 31,000

The amounts due from ICI are currently the subject of litigation. Based on the uncertainty of future recoveries, the receivable has been fully reserved in the financial statements.

**Notes receivable — CNB** — At September 30, 2007, the notes receivable balance for CNB was \$14,512,000. 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, 2007, was \$1,141,000. In October 2007, the landfill was closed. The principal balance, which was due to CNE on December 31, 2007, has not been paid. The Nation is analyzing its future options concerning the landfill and the repayment of the CNE’s note receivable.

On May 30, 2007, CNB entered into a Credit Agreement with CNI, a component unit of the Cherokee Nation. Under the agreement the maximum amount available to CNI is \$15,000,000. All amounts outstanding bear interest at a rate equal to the "Applicable Federal Rate" ("AFR"), which during the period June 2007 to September 2007 averaged 4.8%. CNI has issued a Promissory Note to CNB where the payment of principal, unless otherwise extended, is due on April 30, 2008. As of September 30, 2007, amounts outstanding under this agreement amount to \$13,371,000 and accrued interest receivable amounts to approximately \$233,000. Funds from this agreement were used by CNI to pay off existing bank debt that bore interest at a higher rate and to provide working capital. The Promissory Note and related agreements contain various covenants, including certain financial ratios. As of September 30, 2007, CNI was either in compliance with, or had obtained waivers for, such covenants. The transaction described above was in the form of a loan from CNB to CNI; however, CNB can elect to convert the debt to equity in the future. Effective February 1, 2008, CNB became the sole owner of CNI, CND and CMS when the Nation transferred its ownership in these entities to CNB. CNB elected to convert the debt to equity on March 12, 2008.

**Mortgages receivable—Title VI** — HACN has mortgages receivable at September 30, 2007 totaling \$26,191,000 from individuals who are participating in the Title VI loan program. Each of these loans is secured by a mortgage on the house sold by HACN. The loans have an interest rate of 4% and are payable over 30 years. No allowance has been recorded as of September 30, 2007 as the Housing Authority believes the amounts to be collectable or if the houses are reacquired by HACN, the value of the home will equal or exceed the balance of the loan. At September 30, 2007, the current and non-current portions of these mortgages receivable were \$552,000 and \$25,639,000, 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, 2007 consisted of the following (dollars in thousands):

Due to general fund from:	
Nonmajor enterprise funds	\$ 464
Internal service funds	1,374
Self Governance DOI - Roads	2,105
Self Governance DHHS	4,981
Nonmajor governmental funds	7,035
Total due to general fund from other funds	<u>\$ 15,959</u>
Due from general fund to:	
Housing and Urban Development	\$ 685
Internal service funds	3,683
Nonmajor governmental funds	6,880
Nonmajor enterprise funds	564
Total due from general fund to other funds	<u>\$ 11,812</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, 2007 consisted of the following (dollars in thousands):

<b>Transfer</b>	<b>Amount</b>
To general fund from:	
Self Governance DHHS	\$ 1,194
Self Governance DOI Roads	1,817
Nonmajor governmental funds	5,528
Nonmajor internal service funds	200
Total transfers to general fund	<u>\$ 8,739</u>
To Housing and Urban Development from:	
General fund	<u>\$ 474</u>
To Self governance DHHS from:	
General fund	<u>\$ 2</u>
To internal service fund from:	
Landfill	<u>\$ 85</u>
To enterprise fund from:	
Housing and Urban Development	\$ 146
General fund	1,380
Total transfers to enterprise funds	<u>\$ 1,526</u>
To nonmajor governmental funds from:	
General fund	\$ 3,409
Self governance DHHS	7,490
Housing and Urban Development	115
Nonmajor governmental funds	408
Total transfers to nonmajor governmental funds	<u>\$ 11,422</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, 2007 (dollars in thousands):

	<b>Governmental Funds</b>	<b>Internal Service Funds</b>	<b>Component Units</b>	<b>Total</b>
Finished goods and raw materials	\$ 1,013	\$ -	\$ 16,620	\$ 17,633
Food for distribution	744	-	-	744
Supplies	<u>-</u>	<u>149</u>	<u>-</u>	<u>149</u>
Less inventory reserves	<u>-</u>	<u>-</u>	<u>(3,510)</u>	<u>(3,510)</u>
Total inventories	<u>\$ 1,757</u>	<u>\$ 149</u>	<u>\$ 13,110</u>	<u>\$ 15,016</u>

The majority of the component unit inventory at September 30, 2007 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, 2007 follows (dollars in thousands):

<u>Governmental Activities</u>	Balance, September 30, 2006	Additions and Net Transfers	Retirements	Balance, September 30, 2007
<b>Activity by Major Class</b>				
Capital assets, not being depreciated -				
Land	\$ 10,694	\$ 897	\$ -	\$ 11,591
Buildings and improvements	128	68	-	196
Construction in process	19,496	10,510	-	30,006
Total capital assets, not being depreciated	<u>30,318</u>	<u>11,475</u>	<u>-</u>	<u>41,793</u>
Capital assets being depreciated:				
Buildings and improvements	27,975	13,825	-	41,800
Equipment	21,435	1,683	(452)	22,666
Land improvements	22	-	-	22
Total capital assets being depreciated	<u>49,432</u>	<u>15,508</u>	<u>(452)</u>	<u>64,488</u>
Less accumulated depreciation for:				
Buildings and improvements	(8,687)	(819)	-	(9,506)
Equipment	(14,619)	(2,210)	350	(16,479)
Land improvements	(1)	(1)	-	(2)
Total accumulated depreciation	<u>(23,307)</u>	<u>(3,030)</u>	<u>350</u>	<u>(25,987)</u>
Total capital assets being depreciated, net	<u>26,125</u>	<u>12,478</u>	<u>(102)</u>	<u>38,501</u>
Activity by major class capital assets, net	<u>\$ 56,443</u>	<u>\$ 23,953</u>	<u>\$ (102)</u>	<u>\$ 80,294</u>

Depreciation expense was charged to functions as follows:

Governmental activities:	
Tribal Government	\$ 890
Health Services	570
Education Services	224
Human Services	91
Community Services	241
Other Tribal Services	<u>1,015</u>
Total Governmental activities depreciation expense	<u>\$ 3,031</u>

<b><u>Business-type Activities</u></b>	<b>Balance, September 30, 2006</b>	<b>Additions and Net Transfers</b>	<b>Retirements</b>	<b>Balance, September 30, 2007</b>
Capital assets, not being depreciated -				
Land	\$ 81	\$ -	\$ -	\$ 81
Capital assets being depreciated:				
Buildings and improvements	9,056	-	(7,267)	1,789
Machinery and equipment	2,713	-	(230)	2,483
Total capital assets being depreciated	11,769	-	(7,497)	4,272
Less accumulated depreciation for:				
Buildings and improvements	(2,830)	(719)	2,348	(1,201)
Machinery and equipment	(2,259)	(224)	231	(2,252)
Total accumulated depreciation	(5,089)	(943)	2,579	(3,453)
Total capital assets being depreciated, net	6,680	(943)	(4,918)	819
Business-type activities capital assets, net	\$ 6,761	\$ (943)	\$ (4,918)	\$ 900

### **Impaired Capital Assets**

Subsequent to September 30, 2007, the Landfill ceased most operations due to current capacity constraints. Indian Country Investments, LLC ("ICI"), the Nation's contract operator, ceased performing under the operating agreement and failed to expand the landfill capacity as they were contracted to do. The Nation resumed full operational responsibility for the landfill on October 6, 2007. Currently, the landfill is accepting minimal amounts of waste. The options for future operations and cell development have been evaluated by the Nation's discretely presented component unit, Cherokee Nation Businesses ("CNB"). It is anticipated that CNB will begin development of a new cell at the landfill upon approval by the Cherokee Nation Environmental Protection Commission.

At September 30, 2007, the landfill had a balance in site development costs of approximately \$4,918,000. This represented the unamortized balance of costs of developing cells at the landfill. The Nation has accounted for the impairment of the site development costs using the guidance provided in GASB Statement No. 42 ("GASB Statement 42"), "Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries". GASB Statement 42 provides a two-step process of identifying potential impairments and testing for impairment. The change in operational levels at the landfill identifies the site development as a potentially impaired asset. The impairment test was based on the minimal amount of capacity remaining as the site is currently developed, and the primary government does not intend to continue operation of the Landfill, which will require the development of additional cells. If further development and operating occur, it will likely be done by CNB or another organization without any significant payment back to the Nation. The balance in site development costs was determined to be impaired and was written off at September 30, 2007. The write-off is presented in the Nation's financial statements as a Special Item on pages 27 and 33.

<b><u>Component Unit Activities</u></b>	<b>Balance, September 30, 2006</b>	<b>Additions and transfers in</b>	<b>Retirements and transfers out</b>	<b>Balance, September 30, 2007</b>
CNB and HACN:				
Capital assets, not being depreciated:				
Land	\$ 33,816	\$ 2,227	\$ (394)	\$ 35,649
Construction in progress	11,356	45,883	(32,206)	25,033
Artwork	<u>17</u>	<u>390</u>	<u>-</u>	<u>407</u>
Total capital assets not being depreciated	<u>45,189</u>	<u>48,500</u>	<u>(32,600)</u>	<u>61,089</u>
Capital assets being depreciated:				
Buildings and improvements	234,312	25,230	(5,580)	253,962
Machinery and equipment	<u>67,682</u>	<u>12,046</u>	<u>(1,085)</u>	<u>78,643</u>
Total capital assets being depreciated	<u>301,994</u>	<u>37,276</u>	<u>(6,665)</u>	<u>332,605</u>
Less accumulated depreciation for:				
Buildings and improvements	(75,214)	(9,602)	3,842	(80,974)
Machinery and equipment	<u>(36,313)</u>	<u>(11,319)</u>	<u>1,040</u>	<u>(46,592)</u>
Total accumulated depreciation	<u>(111,527)</u>	<u>(20,921)</u>	<u>4,882</u>	<u>(127,566)</u>
Total capital assets being depreciated, net	<u>190,467</u>	<u>16,355</u>	<u>(1,783)</u>	<u>205,039</u>
CNB and HACN activities capital assets—net	<u>235,656</u>	<u>64,855</u>	<u>(34,383)</u>	<u>266,128</u>
Other Component Unit activities – CNHHS, CNCCA, and CNI capital assets, net				
	<u>1,409</u>	<u>1,286</u>	<u>(1)</u>	<u>2,694</u>
Total of the Component Unit activities—capital assets, net	<u>\$ 237,065</u>	<u>\$ 66,141</u>	<u>\$ (34,384)</u>	<u>\$ 268,822</u>



## 9. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2007 was as follows (dollars in thousands):

<u>Governmental Activities</u>	Balance, October 1, 2006	Additions	Reductions	Balance, September 30, 2007	Current Portion	Long-Term Portion
<b>Notes Payable</b>						
3.7% Note payable to Bank of America. See (1) below.	\$ 3,534	\$ -	\$ (476)	\$ 3,058	\$ 494	\$ 2,564
Note payable to bank in fixed principal payments. See (2) below.	28,202	-	(1,854)	26,348	1,854	24,494
Note payable to bank collateralized by real estate bearing interest at 4% in monthly installments of approximately \$5 maturing in 2011.	121	-	(52)	69	58	11
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.	77	-	(23)	54	22	32
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.	2,436	-	(2,436)	-	-	-
Note payable to bank collateralized by building bearing interest at 6.013% in monthly installments.	-	800	(800)	-	-	-
Note payable to bank collateralized by building bearing interest at 6.013% in monthly installments.	978	3,300	(4,278)	-	-	-
Note payable to bank collateralized by building bearing interest at 6.013% in monthly installments.	910	560	(1,470)	-	-	-
Series 2006 Bonds payable with a pledge of revenues from Heath Care System with semi-annual interest payments and annual principal and interest payments. Coupon rate ranges from 4.10% to 4.6%. Bond matures beginning December 2011. See (3) below.	-	30,000	-	30,000	1,540	28,460
<b>Capital Leases</b>						
Capital leases payable to Caterpillar Financial Services with aggregate monthly installments of \$9.7 including interest rates ranging from 4.29% to 4.44% and final payment due in October 2009. Secured by related equipment.	347	-	(122)	225	110	115
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	253	-	(253)	-	-	-
Total long-term debt	36,858	34,660	(11,764)	59,754	4,078	55,676
<b>Compensated Absences (See (4) below)</b>	3,884	5,878	(5,613)	4,149	4,149	-
Total long-term debt and compensated absences	<u>\$ 40,742</u>	<u>\$ 40,538</u>	<u>\$ (17,377)</u>	<u>\$ 63,903</u>	<u>\$ 8,227</u>	<u>\$ 55,676</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, 2007 of \$9,121,000 carries an interest rate of 6.7%. Pool B, with a balance at September 30, 2007 of \$17,227,000 carries a variable interest rate, reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2007 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 HACN provided construction and acquisition of housing for eligible participants using Title VI loan proceeds “drawn down” through the Nation. As part of its participation in the Title VI loan, the HACN was required to deposit securities in escrow with JP Morgan Chase, formerly Bank One, in an amount equal to five percent of the total loan balance, or approximately \$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 HACN. As collateral for the Title VI loan, the Nation has pledged all current and future grants for which the borrower becomes eligible under NAHASDA as well as program income directly generated from the use of the loan proceeds, program income derived from the sale or lease of real property acquired, rehabilitated or constructed with loan proceeds, and the securities deposited to the Pledge Account. Any program income generated from the above is required to be deposited into a “Loan Repayment Account” to serve as an additional source of payment of principal and interest related to the Title VI loan. The Nation’s note receivable from HACN at September 30, 2007 was \$26,348,000, of which, \$1,854,000 is included in notes receivable current and \$24,494,000 is reflected as long term notes receivable in the government-wide statement of net assets. (See Footnote 1 on page 66.)
- (3) The Nation issued their \$30,000,000 Series 2006 Health Care System Bonds on December 21, 2006. The bonds were issued to fund construction of new clinics in Muskogee and Nowata and an administrative annex for the Redbird Smith clinic in Sallisaw. The bonds carry a coupon rate of 4.1- 4.6% and mature in three phases 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 is 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 were 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, is being constructed and operated in accordance with a Joint Venture Construction Program Agreement (“JVCP”) between the Nation and the Indian Health Service (“IHS”), Department of Health and Human Services dated 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.

- (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, 2007, was \$3,420,000. The balance of Long-Term Debt for Component Units at September 30, 2007, was \$40,946,000. Long-term debt in the business-type activities and component units at September 30, 2007 consisted of the following (dollars in thousands):

<b><u>Business-Type Activities</u></b>	<b>Balance, October 1, 2006</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance, September 30, 2007</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.	\$ 575	\$ -	\$ (87)	\$ 488	\$ 93	\$ 395
<b>Landfill Operations</b>						
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.	295	-	(86)	209	90	119
7.0% note payable to CNE in monthly installments of \$15 including interest with final payment due January 2010. Secured by Landfill accounts receivable.	1,239	-	(98)	1,141	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.	<u>1,538</u>	<u>128</u>	<u>(84)</u>	<u>1,582</u>	<u>25</u>	<u>1,557</u>
<b>Total</b>	<b><u>\$ 3,647</u></b>	<b><u>\$ 128</u></b>	<b><u>\$ (355)</u></b>	<b><u>\$ 3,420</u></b>	<b><u>\$ 1,349</u></b>	<b><u>\$ 2,071</u></b>

<u>Component Units</u>	<u>Balance October 1, 2006</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance September 30, 2007</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 account. See (1) below.	\$ 28,047	\$ -	\$ (1,854)	\$ 26,193	\$ 1,854	\$24,339
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.	147	-	(6)	141	7	134
Assumable Mortgage Program ("AMP") - Five loans for use in the purchase of five homes provided to program participants. Interest rates vary from 6.25% to 7% and are payable in monthly installments over thirty (30) years. See (3) below.	-	330	(1)	329	4	325
<b>Cherokee Nation Industries, Inc. ("CNI")</b>						
Revolving line of credit. See (4) below.	6,326	-	(6,326)	-	-	-
Line of credit, CNB See (4) below.	-	15,000	(1,629)	13,371	13,371	-
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%. See (4) below.	612	-	(161)	451	124	327
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.	2,249	-	(2,249)	-	-	-
<b>Cherokee Nation Home Health Service ("CNHHS")</b>						
7.5% Note payable to bank on a \$372 promissory note, which expires on June 7, 2009. The promissory note is collateralized by the property. See (5) below.	368	-	(7)	361	10	351
Lines of credit with a bank expiring April 2008; 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	282	(352)	100	100	-
<b>Total</b>	<u>\$ 37,919</u>	<u>\$ 15,612</u>	<u>\$ (12,585)</u>	<u>\$ 40,946</u>	<u>\$ 15,470</u>	<u>\$25,476</u>

- (1) HACN, during fiscal year 2007, 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, 2007 was \$9,067,000 carries an interest rate of 6.7%. Pool B, whose balance at September 30, 2007 was \$17,126,000 carries a variable interest rate reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2007 was 5.35%. Pool A is repayable in monthly principal payments of \$54,358 through May 1, 2022, 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 2007, HACN made total principal payments on Pool A of \$652,000 and on Pool B of \$1,202,000.
- (2) During fiscal year 2006, HACN borrowed \$152,000 for its costs related to the Claremore QuadPlex project. The loan is repaid in monthly payments, beginning February 1, 2006, of \$1,341 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, 2007 the loan balance was \$141,000.
- (3) During fiscal year 2007, HACN began its Assumable Mortgage Program. HACN has taken out five loans in the total amount of \$330,000 for use in the purchase of five homes provided to program participants. Interest rates on the loans vary from 6.25% to 7.00% and are payable in monthly installments over thirty years.
- (4) On May 30, 2007 CNI entered into a Credit Agreement with CNB, a component unit of the Nation. Under the agreement the maximum amount available to CNI under this agreement is \$15,000,000. All amounts outstanding bear interest at a rate equal to the "Applicable Federal Rate" ("AFR") which during the period June 2007 to September 2007 averaged 4.8%. CNI has issued a Promissory Note to CNB where the payment of principal, unless otherwise extended, is due on April 30, 2008. As of September 30, 2007, amounts outstanding amount to \$13,371,000 and accrued interest payable amounts to \$233,000. Funds from this agreement were used by CNI to pay off existing bank debt that bore interest at a higher rate, and to provide working capital. The Promissory Note and related agreements contain various covenants, including financial ratios. As of September 30, 2007, CNI was either in compliance with, or had obtained waivers for, such covenants. The transaction described above was in the form of a loan from CNB to CNI; however, CNB can elect to convert the debt to equity in the future. CNB elected to convert the debt to equity on March 12, 2008.

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, 2007 was \$361,000.
- (6) At September 30, 2007, CNHHS had three revolving line of credit agreements with a bank totaling \$307,000 which expires April 27, 2008. Interest accrues at 8.25% 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, 2007, the outstanding balances under the lines of credit totaled \$100,000.

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

	Principal	Interest	Total
Governmental Activities:			
2008	4,078	2,817	6,895
2009	4,048	2,637	6,685
2010	3,987	2,460	6,447
2011	4,067	2,283	6,350
2012	4,152	2,100	6,252
2013 through 2017	19,455	7,694	27,149
2018 through 2022	19,967	2,554	22,521
Total	<u>\$ 59,754</u>	<u>\$ 22,545</u>	<u>\$ 82,299</u>
Business-Type Activities:			
2008	1,349	72	1,421
2009	253	43	296
2010	190	33	223
2011	174	24	198
2012	134	16	150
2013 through 2017	310	62	372
2018 through 2022	325	46	371
2023 through 2027	342	29	371
2028 through 2032	281	13	294
2033 through 2037	62		62
Total	<u>\$ 3,420</u>	<u>\$ 338</u>	<u>\$ 3,758</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, 2007 and 2006, the interest rate in effect was 7.75% and 8.25%, respectively. No amounts were drawn on the Line at September 30, 2007 or 2006. 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. As of September 30, 2007, CNE was in compliance with all of the respective covenant requirements in the credit agreement. The bank and CNE have agreed to extend Line B through November 1, 2008, while negotiations continue on a new credit facility.

## 11. TRUST LIABILITY

The HACN has several lease-to-own homebuyer programs wherein the tenant/homebuyer may eventually purchase the house in accordance with contractual agreements. These transactions are similar to a financing

lease, however are not accounted for as such as the amount and ability to collect the minimum lease payments is not predictable.

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

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 other amounts credited to them in accordance with HUD requirements and program policies. Under the provisions of mutual help occupancy agreements, tenant/homebuyers are required to make payments based on the family or household income. After deducting an administrative fee as set forth by HUD, the remaining balance is credited to the participant’s equity payment account (“MEPA”). The balance of the MEPA accounts, which are being held by HACN on behalf of the New Mutual Help homebuyers, was \$8,238,000 as of September 30, 2007. This along with other credits to these tenant/homebuyers totaled \$9,445,000 at September 30, 2007. 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, 2007, other amounts included in this category include escrow deposits held by the HACN associated with the Title VI program mortgages totaling \$203,000, and low income housing tenant’s security deposits of \$105,000. During the year, the last nine remaining Lease Purchase units were converted to Rural Rental units and the equity balance was taken to income.

**12. FUND BALANCE DESIGNATIONS AND RESERVATIONS**

At September 30, 2007, the Nation had a total General Fund fund balance of \$81,081,000. This balance includes \$42,220,000 that has been reserved by Legislative Act or restricted by external sources and an unreserved fund balance of \$38,861,000. 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, 2007 follows (dollars in thousands):

Balance at beginning of year	\$ 24,674
FY2007 Motor Fuel Tax revenues	7,228
Interest earnings on unexpended funds	1,409
Actual expenditures	<u>(4,830)</u>
Balance at end of year	<u>\$ 28,481</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 2007 totaled \$3,368,000. A summary of activity in this reserved fund balance during the year ended September 20, 2007 follows (dollars in thousands):

Balance at beginning of year	\$ 2,203
FY2007 Tobacco Surtax revenues	3,368
Actual expenditures	<u>(1,500)</u>
Balance at end of year	<u>\$ 4,071</u>

In addition, the legislation authorized 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, 2007.

**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, 2007 totaled approximately \$5,856,000. A summary of activity in this reserved fund balance during the year ended September 30, 2007 follows (dollars in thousands):

Balance at beginning of year	\$ 5,255
FY2007 Motor Vehicle Tax revenues	7,658
Interest earnings on unexpended funds	150
Actual expenditures	<u>(7,207)</u>
Balance at end of year	<u>\$ 5,856</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, 2007 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, 2007 follows (dollars in thousands):



Balance at beginning of year	\$ 1,894
Transfer from Judgement Funds	1,970
Actual expenditures	<u>(2,450)</u>
Balance at end of year	<u>\$ 1,414</u>

**SHS Multipurpose Center** – During fiscal year 2007, the Seminole Tribe of Florida donated \$142,000 to Sequoyah High School for the purchase of a sound and lighting system for the Sequoyah Multipurpose Facility. This amount is included as a reserved by Legislative Act fund balance.

**Unreserved General Fund** — A summary of activity in the unreserved General fund balance for the year ended September 30, 2007 follows (dollars in thousands):

Unreserved fund balance at beginning of year	\$ 36,576
FY2007 General Fund revenues and other financing sources	72,865
Less:	
Actual expenditures and other financing uses	(64,642)
Additional funds restricted by Tribal Council in 2007	<u>(5,938)</u>
Unreserved fund balance at end of year	<u>\$ 38,861</u>

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

### **13. LANDFILL CLOSURE/POSTCLOSURE CARE COSTS & OTHER LANDFILL MATTERS**

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” (“GASB 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. Subsequent to year end, the landfill was near capacity on the existing cell. Currently, the Nation is evaluating options for future development and operation of the landfill. The Nation’s business entity, Cherokee Nation Businesses, LLC (“CNB”) intends to assume operational responsibility and fully develop the landfill subject to approval by the Nation’s Environmental Protection Commission. Based on the expected future development, the Nation continues to account for closure and postclosure costs consistent with prior years recognizing the portion of the costs related to the cumulative capacity used. Although closure and postclosure care costs will only be paid near or after the date the landfill stops accepting waste, GASB Statement No. 18 requires proprietary funds, such as Landfill Operations, to report a portion of these costs as an operating expense in each period based on landfill capacity and utilization. The \$2,271,000 reported as Landfill Closure and Postclosure Care Liability at September 30, 2007 (included in “Other Noncurrent Liabilities”), represents the cumulative costs recognized to date based on the existing use of 35% of the total estimated capacity of the landfill. Landfill Operations will recognize the remaining estimated cost of closure and postclosure care of approximately \$4,293,000 as the remaining estimated capacity is filled. These estimated closure amounts are

based on what it would cost to perform all closure and postclosure care in 2007. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Nation expects the landfill to have a remaining life of approximately 9.3 million cubic yards or approximately 11 years. Actual remaining years of operation is dependant upon several factors including the volume of waste accepted on an annual basis.

The Nation makes annual contributions to a restricted bank account to finance closure and postclosure care. At September 30, 2007, restricted cash and cash equivalents of approximately \$2,068,000 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.

**Other Landfill Matters** – Subsequent to September 30, 2007, the Landfill ceased most operations due to capacity constraints. The Nation resumed full operational responsibility for the Landfill on October 6, 2007. Currently, the Landfill is accepting minimal amounts of waste. The options for future operations and cell development have been evaluated by CNB. It is anticipated that CNB will begin development of a new cell at the Landfill upon approval by the Cherokee Nation Environmental Protection Commission (“CNEPC”).

**Indian Country Investments Operating Agreement** – 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 had a term of the life of the facility, which was 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 and moved to other income for fiscal year 2007. The remaining \$2.7 million was due to the Nation upon completion by ICI of the facility master plan and approval by the CNEPC. ICI has ceased performing under the operating agreement. The agreement with ICI has been declared in default and is currently the subject of litigation. ICI has also filed litigation seeking damages from the Nation.

**Contract with City of Fayetteville, Arkansas** – Cherokee Nation entered into a contract to transport and dispose of municipal solid waste and for operation of a transfer station with the City of Fayetteville (“City”) on April 4<sup>th</sup>, 2006. The initial term of the contract is five years. Prior to October 6<sup>th</sup>, 2007, ICI was performing the scope of service required by the contract. The Nation is continuing to operate the City’s transfer station and the waste is being hauled to an alternate facility. The options for future operations and cell development have been evaluated by Cherokee Nation Businesses (“CNB”). It is anticipated that CNB will begin development of a new cell at the landfill and assume performance responsibility for the City’s contract upon approval by the CNEPC.

#### **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, 2007. Additionally, settlement amounts have not been in excess of insurance coverage in each of the past three years.

The Nation's reported employee health claims liability of \$1,595,000 at September 30, 2007, 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 (dollars in thousands):

<b>Fiscal Year</b>	<b>Balance at Beginning of Year</b>	<b>Claims and Changes in Estimates</b>		<b>Balance at End of Year</b>
			<b>Claim Payments</b>	
2006	\$ 3,303	\$ 12,885	\$ (14,175)	\$ 2,013
2007	\$ 2,013	\$ 10,708	\$ (11,126)	\$ 1,595

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

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. Employers Liability has a \$1,000,000 per person/claim limit; and Crime coverage has a \$1,000,000 each loss limit with a Retroactive date of 10/01/03.

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. Program design includes Clash Coverage which further limits the Nation's exposure by applying only one \$100,000 retention per insured incident regardless of the number of coverage lines that may apply arising out of a single Event. Coverage provided by the All Lines Aggregate program includes the following liability coverage on a \$5,000,000 per occurrence basis: Comprehensive General Liability, Products/Completed operations including but not limited to Contractual Liability, Special Events Liability, Sexual Misconduct Liability, Medical Malpractice including Hospital/Clinic Malpractice, Host and/or Liquor Liability, Innkeepers Liability, Automobile Liability including Non-Owned Automobile Liability, Auto Medical Payments, Uninsured and Underinsured Motorists. The following coverage lines have a limit of \$5,000,000 each occurrence and in the Aggregate: Police or Law Enforcement Officials Liability, Tribal Officials Liability, Errors and Omissions Liability, Employee Benefit Liability, and Employment Practices Liability. Retroactive coverage is provided for all coverage lines within this class with a 10/01/2003 Retroactive Date.

## **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 2007 was approximately \$81,364,000, which included approximately \$79,872,000 for employees covered by the plans. Contributions to the 401(k) plan for 2007 were approximately \$6,346,000. Contributions expressed in dollars and percent of covered payroll were: Nation \$2,738,000, 3.3% and participants \$3,609,000, 4.2%.

<b>Trend Information</b>		
<b>(in thousands)</b>		
<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
2005	\$ 2,269	100%
2006	\$ 2,414	100%
2007	\$ 2,738	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 2007 were \$253,316 of which \$70,110 was required and made by the Nation and \$183,206 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, 2007). Dividend payments to the Nation by component units totaled \$33,669,148 (which includes an accrual of \$2,933,625 for distribution in October 2007) during 2007. The accrual is included in accounts payable balance for CNB. In 2007, CNE also made a special distribution of \$15,000,000 to CNB.

The Nation levies certain taxes and fees which apply to some of the Nation's component units. During 2007, the Nation collected a tribal tax on food and beverage, tobacco, merchandise and other retail sales from CNE totaling \$1,088,911. 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 2007, the Nation collected \$670,105 from CNE for services provided by the Marshals.

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.

Cherokee Nation Businesses, LLC ("CNB") — In 2007, CNB entered into a shared services agreement ("agreement") with CNI to provide internal audit, legal and other services to CNI, at a cost to CNI to be paid annually to CNB. At September 30, 2007, there was \$300,000 owed to CNB for this agreement. This amount is included in CNB's accounts receivable as of September 30, 2007. CNB also provided internal audit, legal and other services to CNE, a blended component unit of CNB.

In 2006, CNB entered into a Memorandum of Understanding ("MOU") 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 MOU is for actual direct cost of the construction. The project is expected to be completed in 2008 at which time a mortgage is planned to be issued for the PACE building payable to CNB.

On May 30, 2007, CNB entered into a Credit Agreement with CNI, a component unit of the Cherokee Nation. Under the agreement, the maximum amount available to CNI is \$15,000,000. All amounts outstanding bear interest at a rate equal to the "Applicable Federal Rate" ("AFR"), which during the period June 2007 to September 2007 averaged 4.8%. CNI has issued a Promissory Note to CNB where the payment of principal, unless otherwise extended, is due on April 30, 2008. As of September 30, 2007, amounts outstanding under this agreement amount to \$13,370,639 and accrued interest receivable amounts to approximately \$233,000. Funds from this agreement were used by CNI to pay off existing bank debt that bore interest at a higher rate and to provide working capital. The Promissory Note and related agreements contain various covenants, including certain financial ratios. As of September 30, 2007, CNI was either in compliance with, or had obtained waivers for such covenants. The transaction described above was in the form of a loan from CNB to CNI; however, CNB elected to convert the debt to equity on March 12, 2008.

Cherokee Nation Industries, Inc ("CNI") — The Nation leases certain properties to CNI under a month-to-month agreement. Lease revenues to the Nation for the properties were approximately \$94,000 for 2007.

During fiscal year 2007, the Nation's Risk Management prepaid insurance for CNI in the amount of \$64,000. This amount is recorded as a due from component unit on the Nation's books and as an Accounts Payable on CNI's books as of September 30, 2007.

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 \$28,952,000 and construction costs of approximately \$26,892,000 resulting from the arrangement. At September 30, 2007, the Nation and CNE owed approximately \$2,434,000 for reimbursement of construction costs and management fees to CNI.

Cherokee Nation Home Health Services, Inc ("CNHHS") — 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 \$110,000 of accounts receivable, net from this transaction. CNHHS received \$816,938 from the Nation for services, of which \$958,383 was earned and recognized as other service revenue in the CNHHS statements with related expenses of \$958,383 for the year ended September 30, 2007.

Cherokee National Historical Society, Inc (“CNHS”) — In November 2005, the Nation, CNE, and the CNHS entered into a Memorandum of Agreement to further the parties shared mission to preserve the culture and history of the Cherokees by assigning duties to the party that can best perform those duties. CNHS remained responsible for all charitable fundraising, maintaining memberships, operating the museum and teach the Cherokee Humanities Course. In 2007, CNE provided marketing services, including group sales, and operation of the museum store at a net cost to CNE of \$370,000. 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 2007, the Nation’s general fund included an operational budget of \$1,200,000 for the Cherokee Nation Historical Society.

## 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 and the State of Oklahoma have been involved in a dispute concerning sales tax on cigarettes. Initial arbitration on this matter was concluded in March 2008, and the ruling was generally in favor of the State. The issue of damages is set for further hearing. The Nation does not believe that damages, if any, will have a significant impact on the financial statements of the Nation. However, certain revenues received by the Nation, that approximated \$3.4 million in the year ended September 30, 2007, may not be available in future years as a result of this ruling.

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 — 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 have been closed, the most significant finding contains questioned costs related to the Nation’s Marshal Service expenditures totaling \$396,709. 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, 2007, 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, 2007, the estimated costs to complete the expansion of the Catoosa facility and the West Siloam Springs casino construction projects underway were approximately \$189.1 million.

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 2007.

CNI Matters — CNI is a defendant in a lawsuit alleging breach of contract and unjust enrichment. CNI and the plaintiff have been ordered by the court to enter into an arbitration process. CNI’s defenses in this process include the assertion of sovereign immunity. CNI management estimates that the remaining potential liability, if any, relating to this matter will not exceed \$4,300,000.

## 18. SUBSEQUENT EVENTS

HACN Matters — February 14, 2008, the Nation and HACN entered into a Memorandum of Agreement (“MOA”) for the purpose of designating the Nation as the entity to administer housing programs on behalf of the HACN effective May 1, 2008. This MOA applies to all activities and expenditures of the Nation that are made on behalf of the HACN and encompasses all funding sources of the HACN including but not limited to NAHASDA, Program Income, Non-Program Income, MEPA, Proceeds of Sale, and Operating Reserves. HACN will retain operations related to land title and oversight of the low income tax credit partnership projects. The MOA shall remain in effect until terminated. Either party may terminate this contract with a sixty (60) days’ written notice to the other party in the event of a material breach of this agreement, provided that the defaulting party may cure the breach or default within the sixty (60) day notice period or within such additional period as may be reasonably agreed to by the parties to cure the breach or default, in order to preserve continuation of this agreement.

A majority of the employees of HACN will become employees of the Nation upon implementation of the MOA. The HACN will continue to have a Board of Commissioners will continue to provide oversight and direction to the remaining activities of HACN.

CNB Matters — Effective February 1, 2008, CNB became the sole owner of Cherokee Nation Industries, Inc., Cherokee Nation Distributors, LLC, and Cherokee Medical Services, LLC (collectively “CNI”) when the Nation transferred its ownership in these entities to CNB. In addition, on March 12, 2008, CNB elected to convert its debt position in CNI to equity.



OTHER  
SUPPLEMENTARY  
INFORMATION

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

NONMAJOR  
GOVERNMENTAL FUNDS

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

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

- **Self Governance DOI - Other** – Established to account for funds received under the Nation's self governance compact with the United States Government. These funds are used to administer a number of programs under the Department of Interior relating to education, health and welfare, and tribal government within the Nation's geographic boundaries.
- **Sequoyah Education** – Established to account for grant funds received from the Department of the Interior to help fund the education programs of Sequoyah High School.
- **Talking Leaves Job Corps** – Established to account for funds received from the Department of Labor for counseling, training and job placement of disadvantaged youth.
- **Diabetes** – Established to account for Department of Health and Human Services Diabetes Grant funds used to purchase diabetic medicines and supplies, promote awareness and provide assistance to diabetic patients.
- **Food Distribution** – Established to account for Department of Agriculture food products provided to the Nation and grant funds used to pay administrative and program costs of a program which provides food to eligible Indian families.
- **Women, Infants and Children** – Established to account for grant funds received from the Department of Agriculture to supply supplemental food and nutrition education to women and children at nutritional risk.
- **Head Start** – Established to account for grant funds from the Department of Health and Human Services to provide comprehensive health, educational, nutritional, social, and other services primarily to economically disadvantaged preschool Indian children.
- **PL102-477** – Established to account for funds received through the Department of the Interior from the Department of Labor for counseling, training and job placement of disadvantaged youth, as well as from the Department of Health and Human Services to provide child care services for low-income families with a parent that is working or attending a training or educational program.
- **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 Education Trust** – Established to account for funds endowed by Glenn L. and Faye V. Gammon Trust. The income from this education trust may be used to provide tuition and related educational assistance while they attend any accredited college or university located in the continental United States. The Cherokee students must be at least one-quarter blood quantum.

**CHEROKEE NATION**

**COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2007**

**(Dollars in Thousands)**

	Special Revenue Funds													Capital Projects	Debt Service	Permanent Funds			Total Nonmajor Governmental Funds		
	Self Governance	Sequoyah Education	Talking Leaves Job Corps	Food Diabetes	Food Distribution	Women, Infants, & Children	Head Start	PI 102-477	Title VI	Other Grants	Tribal Judgment Funds	Tribal Trusts	Total	Capital Projects Fund	Debt Service Fund	Sequoyah Endowment	Gammon Education Trust	Total			
	DOI-Other	Education	Corps	Diabetes	Distribution	& Children	Head Start	PI 102-477	Title VI	Grants	Judgment Funds	Trusts	Total	Fund	Fund	Endowment	Trust	Total			
<b>ASSETS</b>																					
Cash and cash equivalents	\$ 1,716	\$ 12,516	\$ 41	\$ 3,704	\$ -	\$ 8	\$ -	\$ 9,173	\$ 289	\$ 354	\$ 11,353	\$ 1,393	\$ 40,540	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 40,540	
Investments	-	-	-	-	-	-	-	-	-	278	6,499	-	6,777	-	-	-	-	-	-	6,777	
Receivables, net	97	-	273	-	11	977	226	1	-	1,793	116	6	3,520	20	5	-	-	-	-	3,545	
Due from other funds	-	-	-	-	-	-	-	-	-	-	-	-	-	6,837	43	-	-	-	-	6,880	
Inventories	-	-	-	-	744	-	-	-	-	-	-	-	744	-	-	-	-	-	-	744	
Notes receivable	-	-	-	-	-	-	-	-	-	135	-	-	138	-	-	-	-	-	-	138	
Other current assets	12	1	5	3	-	476	1	2	-	32	-	-	532	214	-	-	-	-	-	746	
Restricted cash and cash equivalents	-	-	-	-	-	-	-	-	-	-	2,196	-	2,196	5,018	1,736	239	351	590	-	9,540	
<b>Total assets</b>	<b>\$ 1,825</b>	<b>\$ 12,517</b>	<b>\$ 312</b>	<b>\$ 3,707</b>	<b>\$ 775</b>	<b>\$ 1,461</b>	<b>\$ 227</b>	<b>\$ 9,176</b>	<b>\$ 289</b>	<b>\$ 2,595</b>	<b>\$ 20,164</b>	<b>\$ 1,399</b>	<b>\$ 54,447</b>	<b>\$ 12,089</b>	<b>\$ 1,784</b>	<b>\$ 239</b>	<b>\$ 351</b>	<b>\$ 590</b>	<b>\$ -</b>	<b>\$ 68,910</b>	
<b>LIABILITIES AND FUND BALANCE</b>																					
<b>Liabilities</b>																					
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 128	\$ 37	\$ -	\$ -	\$ 165	\$ -	\$ 437	\$ -	\$ -	\$ -	\$ -	\$ 602	
Due to other funds	405	446	312	252	31	665	227	329	-	457	3,710	64	6,998	-	-	37	-	-	37	7,035	
Due to component unit	15	-	-	-	-	-	-	-	-	-	-	-	15	-	-	-	-	-	-	15	
Other liabilities	-	-	-	-	-	796	-	-	-	-	-	-	796	-	-	-	-	-	-	796	
Deferred grant revenue	1,379	10,524	-	3,455	-	-	-	8,177	-	328	-	-	23,863	-	-	-	-	-	-	23,863	
Unearned revenue	26	-	-	-	744	-	-	-	-	-	-	-	770	-	-	-	-	-	-	770	
<b>Total liabilities</b>	<b>1,825</b>	<b>10,870</b>	<b>312</b>	<b>3,707</b>	<b>775</b>	<b>1,461</b>	<b>227</b>	<b>8,506</b>	<b>128</b>	<b>1,022</b>	<b>3,710</b>	<b>64</b>	<b>32,607</b>	<b>-</b>	<b>437</b>	<b>37</b>	<b>-</b>	<b>-</b>	<b>37</b>	<b>33,081</b>	
<b>Fund balance, reserved</b>		1,647						670	161	1,573	16,454	1,335	21,840	12,089	1,347	202	351	553		35,829	
<b>Total fund balances</b>		<b>1,647</b>						<b>670</b>	<b>161</b>	<b>1,573</b>	<b>16,454</b>	<b>1,335</b>	<b>21,840</b>	<b>12,089</b>	<b>1,347</b>	<b>202</b>	<b>351</b>	<b>553</b>		<b>35,829</b>	
<b>Total liabilities and fund balance</b>	<b>\$ 1,825</b>	<b>\$ 12,517</b>	<b>\$ 312</b>	<b>\$ 3,707</b>	<b>\$ 775</b>	<b>\$ 1,461</b>	<b>\$ 227</b>	<b>\$ 9,176</b>	<b>\$ 289</b>	<b>\$ 2,595</b>	<b>\$ 20,164</b>	<b>\$ 1,399</b>	<b>\$ 54,447</b>	<b>\$ 12,089</b>	<b>\$ 1,784</b>	<b>\$ 239</b>	<b>\$ 351</b>	<b>\$ 590</b>	<b>\$ -</b>	<b>\$ 68,910</b>	

CHEROKEE NATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED, SEPTEMBER 30, 2007  
 (Dollars in Thousands)

	Special Revenue Funds													Capital Projects	Debt Service	Permanent Funds			Total Nonmajor Governmental Funds	
	Self Governance DOI-Other	Sequoyah Education	Talking Leaves Job Corps	Diabetes	Food Distribution	Women, Infants, & Children	Head Start	PL 102-477	Title VI	Other Grants	Tribal Judgment Funds	Tribal Trusts	Total	Capital Projects Fund	Debt Service Fund	Sequoyah Endowment	Gammon Education Trust	Total	Total	
Revenues																				
Intergovernmental	\$ 11,272	\$ 10,302	\$ 6,522	\$ 7,014	\$ 6,995	\$ 6,532	\$ 6,421	\$ 11,094	\$ -	\$ 16,906	\$ -	\$ -	\$ 83,058	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 83,058
Interest	84	906	2	151	-	35	26	369	1,728	55	940	66	4,362	480	29	12	17	29	4,900	
Other	908	1	295	-	44	-	1,752	366	1,854	1,922	5,169	157	12,218	-	-	-	-	-	12,218	
Total revenues	12,264	11,209	6,819	7,165	7,039	6,567	8,199	11,829	3,582	18,933	6,109	223	99,938	480	29	12	17	29	100,476	
Expenditures																				
Current operating																				
Tribal government	2,764	-	-	-	-	-	-	-	-	23	137	1	3,225	-	5	-	-	-	3,230	
Health services	-	-	-	7,123	-	6,400	8,199	2,747	-	5,808	-	-	19,331	1,774	-	-	-	-	21,105	
Education services	3,641	7,409	6,819	-	-	-	-	-	-	2,048	-	-	30,863	-	-	3	-	3	30,866	
Human services	2,627	-	-	-	1,352	-	-	9,082	-	6,274	-	-	25,335	-	-	-	-	-	25,335	
Community services	661	-	-	-	-	-	-	-	-	1,500	-	-	2,161	-	-	-	-	-	2,161	
Other tribal services	2,336	-	-	-	-	-	-	-	-	2,351	-	-	4,687	-	-	-	-	-	4,687	
Debt services																				
Principal	-	-	-	-	-	-	-	-	1,854	-	-	-	1,854	-	6,548	-	-	-	8,402	
Interest	-	-	-	-	-	-	-	-	1,725	-	10	-	1,735	-	1,070	-	-	-	2,805	
Capital outlay	-	41	-	42	175	-	-	-	-	105	-	-	363	22,190	-	-	-	-	22,553	
Total expenditures	12,029	7,450	6,819	7,165	7,527	6,400	8,199	11,829	3,579	18,409	147	1	89,554	23,964	7,623	-	-	3	121,144	
Excess (deficiency) of revenues over expenditures	235	3,759	-	-	(488)	167	-	-	3	524	5,962	222	10,384	(23,484)	(7,594)	9	17	26	(20,668)	
Other financing sources (uses)																				
Issuance of long-term debt	-	-	-	-	-	-	-	-	-	-	-	-	-	28,112	6,548	-	-	-	-	34,660
Transfers in	90	226	-	-	488	-	-	-	-	339	-	-	1,143	7,985	2,294	-	-	-	11,422	
Transfers out	(325)	(3,079)	-	-	-	(167)	-	-	-	(5)	(2,360)	-	(5,936)	-	-	-	-	-	(5,936)	
Total other financing sources (uses)	(235)	(2,853)	-	-	488	(167)	-	-	-	334	(2,360)	-	(4,793)	36,097	8,842	-	-	-	40,146	
Excess (deficiency) of revenues and other financing sources over expenditures	-	906	-	-	-	-	-	-	3	858	3,602	222	5,591	12,613	1,248	9	17	26	19,478	
Fund balance, October 1, 2006	-	741	-	-	-	-	-	670	158	715	12,852	1,113	16,249	(524)	99	193	334	527	16,351	
Fund balance, September 30, 2007	\$ -	\$ 1,647	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 670	\$ 161	\$ 1,573	\$ 16,454	\$ 1,335	\$ 21,840	\$ 12,089	\$ 1,347	\$ 202	\$ 351	\$ 553	\$ 35,829	

# NONMAJOR ENTERPRISE FUNDS

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

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

**CHEROKEE NATION**

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

**SEPTEMBER 30, 2007**

**(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	\$ 42	\$ 18	\$ 1,829	\$ -	\$ 1,889
Accounts receivable, net	-	-	1	-	1
Due from other funds	-	-	492	72	564
Notes receivable, current	-	-	236	-	236
Other current assets	2	-	-	-	2
Total current assets	44	18	2,558	72	2,692
Noncurrent assets:					
Restricted cash and cash equivalents	275	2,068	-	-	2,343
Long-term notes receivable	-	-	1,573	-	1,573
Capital assets, net	650	250	-	-	900
Total noncurrent assets	925	2,318	1,573	-	4,816
Total assets	969	2,336	4,131	72	7,508
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued liabilities	23	-	-	-	23
Current portion of long-term debt	93	1,141	25	-	1,259
Current portion of capital leases	-	90	-	-	90
Due to other funds	-	464	-	-	464
Other current liabilities	17	-	-	-	17
Total current liabilities	133	1,695	25	-	1,853
Noncurrent liabilities:					
Long-term debt	395	-	1,557	-	1,952
Capital leases	-	119	-	-	119
Other liabilities	-	2,271	-	-	2,271
Total noncurrent liabilities	395	2,390	1,557	-	4,342
Total liabilities	528	4,085	1,582	-	6,195
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	162	-	-	-	162
Unrestricted net assets/(deficit)	279	(1,749)	2,549	72	1,151
Total net assets	<u>\$ 441</u>	<u>\$ (1,749)</u>	<u>\$ 2,549</u>	<u>\$ 72</u>	<u>\$ 1,313</u>



**CHEROKEE NATION**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(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	-	2,044	-	7	2,051
Other	12	-	13	-	25
Total operating revenues	498	2,044	13	7	2,562
Operating expenses:					
Salaries and wages	35	874	-	16	925
Other services and charges	250	991	109	3	1,353
Materials and supplies	16	-	6	-	22
Depreciation and amortization	51	893	-	-	944
Total operating expenses	352	2,758	115	19	3,244
Operating income (loss)	146	(714)	(102)	(12)	(682)
Nonoperating revenues (expenses):					
Interest income	13	175	205	-	393
Interest expense	(36)	(96)	(24)	-	(156)
Other sources	-	81	-	-	81
Net nonoperating revenues (expenses)	(23)	160	181	-	318
Income (loss) before transfers	123	(554)	79	(12)	(364)
Transfers in	-	850	664	12	1,526
Transfers out	-	(85)	-	-	(85)
Special item	-	(4,918)	-	-	(4,918)
Change in net assets	123	(4,707)	743	-	(3,841)
Total net assets - beginning	318	2,958	1,806	72	5,154
Total net assets - ending	\$ 441	\$ (1,749)	\$ 2,549	\$ 72	\$ 1,313

**CHEROKEE NATION**

**COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2007  
(Dollars in Thousands)**

	<b>Business-type Activities- Enterprise Funds</b>				
	<b>Tsa-La-Gi Apartments</b>	<b>Landfill Operations</b>	<b>EDTA</b>	<b>Other Enterprises</b>	<b>Total</b>
<b>Cash flows from operating activities:</b>					
Receipts from customers	\$ 486	\$ 2,462	\$ (1)	\$ 7	\$ 2,954
Internal activity - payments from other funds	-	-	(492)	-	\$ (492)
Payments to suppliers	(280)	(642)	(115)	(3)	(1,040)
Payments to employees	(35)	(874)	-	(16)	(925)
Internal activity - payment to other funds	(50)	(1,646)	(50)	-	(1,746)
Program loans	-	-	35	-	35
Other receipts	12	-	13	-	25
Net cash provided/(used) by operating activities	<u>133</u>	<u>(700)</u>	<u>(610)</u>	<u>(12)</u>	<u>(1,189)</u>
<b>Cash flows from noncapital financing activities</b>					
Transfer from other funds	-	850	664	12	1,526
Transfer to other funds	-	(85)	-	-	(85)
Receipts from other sources	-	81	-	-	81
Net cash provided by noncapital financing activities	<u>-</u>	<u>846</u>	<u>664</u>	<u>12</u>	<u>1,522</u>
<b>Cash flows from capital and related financing activities</b>					
Purchases of capital assets	(1)	-	-	-	(1)
Proceeds from capital debt	-	-	128	-	128
Principal paid on capital debt	(86)	(184)	(85)	-	(355)
Interest paid on capital debt	(36)	(96)	(24)	-	(156)
Net cash (used) by capital and related financing activities	<u>(123)</u>	<u>(280)</u>	<u>19</u>	<u>-</u>	<u>(384)</u>
<b>Cash flows from investing activities</b>					
Interest and dividends received	13	175	205	-	393
Net cash provided by investing activities	<u>13</u>	<u>175</u>	<u>205</u>	<u>-</u>	<u>393</u>
<b>Net increase (decrease) in cash and cash equivalents</b>					
	23	41	278	-	342
Cash and cash equivalents, October 1, 2006	294	2,045	1,551	-	3,890
Cash and cash equivalents, September 30, 2007	<u>\$ 317</u>	<u>\$ 2,086</u>	<u>\$ 1,829</u>	<u>\$ -</u>	<u>\$ 4,232</u>
<b>Cash and cash equivalents consist of:</b>					
Unrestricted cash and cash equivalents	\$ 42	\$ 18	\$ 1,829	\$ -	\$ 1,889
Restricted cash and cash equivalents	275	2,068	-	-	2,343
	<u>\$ 317</u>	<u>\$ 2,086</u>	<u>\$ 1,829</u>	<u>\$ -</u>	<u>\$ 4,232</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>					
Operating income (loss)	\$ 146	\$ (714)	\$ (102)	\$ (12)	\$ (682)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	51	893	-	-	944
Change in assets and liabilities:					
Receivables and due from (to) other funds	-	718	(458)	-	260
Liabilities and other payables	(64)	(1,597)	(50)	-	(1,711)
Net cash provided by operating activities	<u>\$ 133</u>	<u>\$ (700)</u>	<u>\$ (610)</u>	<u>\$ (12)</u>	<u>\$ (1,189)</u>

**This Page Intentionally Left Blank**

# INTERNAL SERVICE FUNDS

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

**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.

**CHEROKEE NATION**

**COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS**

SEPTEMBER 30, 2007

(Dollars in Thousands)

	<u>Internal Leases</u>	<u>Force Accounts</u>	<u>Fringe Pool</u>	<u>Indirect Cost Pool</u>	<u>Total</u>
<b>ASSETS</b>					
Current assets:					
Cash and cash equivalents	\$ -	\$ 2	\$ 1,466	\$ 9	\$ 1,477
Accounts receivable, net	-	-	-	200	200
Due from other funds	-	-	3,373	310	3,683
Due from component units	-	-	-	64	64
Inventories	-	-	-	149	149
Other current assets	1	9	-	552	562
Total current assets	<u>1</u>	<u>11</u>	<u>4,839</u>	<u>1,284</u>	<u>6,135</u>
Noncurrent assets:					
Restricted cash & cash equivalents	1,023	28	-	-	1,051
Capital assets, net	10,339	161	-	1,163	11,663
Total noncurrent assets	<u>11,362</u>	<u>189</u>	<u>-</u>	<u>1,163</u>	<u>12,714</u>
Total assets	<u>11,363</u>	<u>200</u>	<u>4,839</u>	<u>2,447</u>	<u>18,849</u>
<b>LIABILITIES</b>					
Current liabilities:					
Accounts payable and accrued liabilities	-	-	4,543	150	4,693
Current portion of long-term debt	494	-	-	-	494
Current portion of capital leases	12	98	-	-	110
Due to other funds	1,171	203	-	-	1,374
Compensated absences	-	-	4,149	-	4,149
Other current liabilities	-	-	1,595	1,821	3,416
Total current liabilities	<u>1,677</u>	<u>301</u>	<u>10,287</u>	<u>1,971</u>	<u>14,236</u>
Noncurrent liabilities:					
Long-term debt	2,564	-	-	-	2,564
Capital leases payable	12	103	-	-	115
Total noncurrent liabilities	<u>2,576</u>	<u>103</u>	<u>-</u>	<u>-</u>	<u>2,679</u>
Total liabilities	<u>4,253</u>	<u>404</u>	<u>10,287</u>	<u>1,971</u>	<u>16,915</u>
<b>NET ASSETS</b>					
Invested in capital assets, net of related debt	7,257	-	-	1,163	8,420
Unrestricted net assets/(deficit)	(147)	(204)	(5,448)	(687)	(6,486)
Total net assets/(deficit)	<u>\$ 7,110</u>	<u>\$ (204)</u>	<u>\$ (5,448)</u>	<u>\$ 476</u>	<u>\$ 1,934</u>

## CHEROKEE NATION

### COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - INTERNAL SERVICE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2007 (Dollars in Thousands)

	Internal Leases	Force Accounts	Fringe Pool	Indirect Cost Pool	Total
Operating revenues:					
Property rentals	\$ 3	\$ -	\$ -	\$ -	\$ 3
Charges for services and goods	2,891	22	40,223	22,745	65,881
Other	85	26	-	81	192
Total operating revenues	<u>2,979</u>	<u>48</u>	<u>40,223</u>	<u>22,826</u>	<u>66,076</u>
Operating expenses:					
Cost of sales	-	-	-	1	1
Salaries and wages	1,298	47	36,350	12,482	50,177
Other services and charges	902	40	22	9,489	10,453
Materials and supplies	115	1	-	852	968
Depreciation and amortization	355	139	-	625	1,119
Total operating expenses	<u>2,670</u>	<u>227</u>	<u>36,372</u>	<u>23,449</u>	<u>62,718</u>
Operating income (loss)	<u>309</u>	<u>(179)</u>	<u>3,851</u>	<u>(623)</u>	<u>3,358</u>
Nonoperating revenues (expenses):					
Interest income	51	1	-	-	52
Interest expense	(124)	(9)	-	-	(133)
Net nonoperating revenues (expenses)	<u>(73)</u>	<u>(8)</u>	<u>-</u>	<u>-</u>	<u>(81)</u>
Income (loss) before transfers	236	(187)	3,851	(623)	3,277
Capital contribution	770	-	-	-	770
Transfers in	-	85	-	-	85
Transfers out	(200)	-	-	-	(200)
Change in net assets	<u>806</u>	<u>(102)</u>	<u>3,851</u>	<u>(623)</u>	<u>3,932</u>
Total net assets/(deficit) - beginning	<u>6,304</u>	<u>(102)</u>	<u>(9,299)</u>	<u>1,099</u>	<u>(1,998)</u>
Total net assets/(deficit) - ending	<u>\$ 7,110</u>	<u>\$ (204)</u>	<u>\$ (5,448)</u>	<u>\$ 476</u>	<u>\$ 1,934</u>

**CHEROKEE NATION**

**COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS**

**FOR THE YEAR ENDED SEPTEMBER 30, 2007**

**(Dollars in Thousands)**

	Internal Leases	Force Accounts	Fringe Pool	Indirect Cost Pool	Total
Cash flows from operating activities:					
Receipts from customers	\$ 2,894	\$ 22	\$ 40,223	\$ 22,745	\$ 65,884
Internal activity - payments from other funds	400	78	-	-	478
Payments to suppliers	(933)	(16)	-	(8,802)	(9,751)
Payments to employees	(1,298)	(47)	(36,350)	(12,482)	(50,177)
Internal activity - payments to other funds	-	-	(4,400)	(1,094)	(5,494)
Other receipts	-	-	841	-	841
Net cash provided/(used) by operating activities	<u>1,063</u>	<u>37</u>	<u>314</u>	<u>367</u>	<u>1,781</u>
Cash flows from noncapital financing activities					
Transfer from other funds	-	85	-	-	85
Transfer to other funds	(200)	-	-	-	(200)
Net cash provided by noncapital financing activities	<u>(200)</u>	<u>85</u>	<u>-</u>	<u>-</u>	<u>(115)</u>
Cash flows from capital and related financing activities					
Purchases of capital assets	(253)	-	-	(113)	(366)
Principal paid on capital debt	(486)	(112)	-	(253)	(851)
Interest paid on capital debt	(124)	(9)	-	-	(133)
Net cash provided/(used) by capital and related financing activities	<u>(863)</u>	<u>(121)</u>	<u>-</u>	<u>(366)</u>	<u>(1,350)</u>
Cash flows from investing activities					
Interest and dividends	51	1	-	-	52
Net cash provided by investing activities	<u>51</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>52</u>
Net increase (decrease) in cash and cash equivalents	51	2	314	1	368
Cash and cash equivalents, October 1, 2006	<u>972</u>	<u>28</u>	<u>1,152</u>	<u>8</u>	<u>2,160</u>
Cash and cash equivalents, September 30, 2007	<u>\$ 1,023</u>	<u>\$ 30</u>	<u>\$ 1,466</u>	<u>\$ 9</u>	<u>2,528</u>
Cash and cash equivalents consist of:					
Unrestricted cash and cash equivalents	\$ -	\$ 2	\$ 1,466	\$ 9	\$ 1,477
Restricted cash and cash equivalents	1,023	28	-	-	1,051
	<u>\$ 1,023</u>	<u>\$ 30</u>	<u>\$ 1,466</u>	<u>\$ 9</u>	<u>\$ 2,528</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ 309	\$ (179)	\$ 3,851	\$ (623)	\$ 3,358
Adjustments to reconcile operating income to net cash provided (used) by operating activities:					
Depreciation expense	355	139	-	625	1,119
Change in assets and liabilities:					
Receivables and due from (to) other funds	-	-	(3,356)	(350)	(3,706)
Inventories	-	-	-	(38)	(38)
Other current assets	(1)	(1)	-	(397)	(399)
Accounts and other payables	400	78	(181)	1,150	1,447
Net cash provided by operating activities	<u>\$ 1,063</u>	<u>\$ 37</u>	<u>\$ 314</u>	<u>\$ 367</u>	<u>\$ 1,781</u>
Noncash investing, capital, and financing activities:					
Contributions of capital assets from government	770	-	-	-	-



**This Page Intentionally Left Blank**

# COMPONENT UNIT

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT

**CHEROKEE NATION**

**COMBINING STATEMENT OF NET ASSETS - CHEROKEE NATION BUSINESSES, LLC**

SEPTEMBER 30, 2007

(Dollars in Thousands)

	Cherokee Nation Businesses LLC (CNB)	Cherokee Technologies LLC (CT)	Cherokee Nation Enterprises LLC (CNE)	Cherokee Services Group, LLC (CSG)	Eliminations	Total
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 3,413	\$ 1	\$ 19,524	\$ 45	\$ -	\$ 22,983
Restricted cash	-	-	10,172	-	-	10,172
Investments	-	-	85,466	-	-	85,466
Receivables, net	901	-	4,591	57	-	5,549
Inventories	-	-	2,828	-	-	2,828
Notes receivable	-	-	1,141	-	-	1,141
Other current assets	105	-	6,949	-	-	7,057
Total current assets	4,422	1	130,671	102	-	135,196
Notes receivable	13,371	-	-	-	-	13,371
Other assets	1,069	-	-	-	-	1,069
Investment in partnerships/joint ventures	1,260	-	-	-	-	1,260
Capital assets, net	146	-	187,159	-	-	187,305
Total assets	20,268	1	317,830	102	-	338,201
<b>LIABILITIES</b>						
Current liabilities						
Accounts payable and accrued liabilities	982	-	51,260	65	-	52,307
Total current liabilities	982	-	51,260	65	-	52,307
Total liabilities	982	-	51,260	65	-	52,307
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	147	-	177,547	-	-	177,694
Restricted for:						
Construction	-	-	8,306	-	-	8,306
Unrestricted net assets/(deficit)	19,139	1	80,717	37	-	99,894
Total net assets (deficit)	\$ 19,286	\$ 1	\$ 266,570	\$ 37	\$ -	\$ 285,894

## CHEROKEE NATION

COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT) -  
 CHEROKEE NATION BUSINESSES, LLC  
 FOR THE YEAR ENDED SEPTEMBER 30, 2007  
 (Dollars in Thousands)

	Cherokee Nation Businesses LLC (CNB)	Cherokee Technologies LLC (CT)	Cherokee Nation Enterprises LLC (CNE)	Cherokee Services Group, LLC (CSG)	Eliminations	Total
Operating revenues:						
Charges for services and goods	2,849	-	414,304	74	(2,549)	414,678
Total operating revenues	2,849	-	414,304	74	(2,549)	414,678
Operating expenses:						
Cost of sales/operations	-	-	95,440	-	-	95,440
Salaries and wages	3,483	-	119,385	-	-	122,868
Other services and charges	1,897	-	76,037	67	(2,549)	75,452
Depreciation and amortization	50	-	16,179	-	-	16,229
Total operating expenses	5,430	-	307,041	67	(2,549)	309,989
Operating income (loss)	(2,581)	-	107,263	7	-	104,689
Nonoperating revenues (expenses)						
Interest/investment income	332	-	4,591	-	-	4,923
Interest expense	-	-	(332)	-	-	(332)
Other, net	(55)	-	-	-	-	(55)
Net nonoperating revenues (expenses)	277	-	4,259	-	-	4,536
Net Income (loss)	(2,304)	-	111,522	7	-	109,225
Dividends to primary government	-	-	(33,669)	-	-	(33,669)
Transfers to (from) component unit	18,327	955	(19,312)	30	-	-
Change in net assets	16,023	955	58,541	37	-	75,556
Net assets, beginning of year	3,263	(954)	208,029	-	-	210,338
Net assets (deficit), end of year	\$ 19,286	\$ 1	\$ 266,570	\$ 37	\$ -	\$ 285,894

# 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, 2007  
(Dollars in Thousands)**

	Budgeted Amounts		Actual	Variance with Final Budget over/(under)
	Original	Final		
Operating revenues:				
Property rentals	\$ -	\$ 501	\$ 486	\$ (15)
Charges for services and goods	2,679	2,679	2,051	(628)
Other	-	6	25	19
Total operating revenues	<u>2,679</u>	<u>3,186</u>	<u>2,562</u>	<u>(624)</u>
Operating expenses:				
Salaries and wages	1,002	1,042	925	(117)
Other services and charges	849	1,164	1,353	189
Materials and supplies	-	1	22	21
Depreciation and amortization	896	951	944	(7)
Total operating expenses	<u>2,747</u>	<u>3,158</u>	<u>3,244</u>	<u>86</u>
Operating income (loss)	<u>(68)</u>	<u>28</u>	<u>(682)</u>	<u>(710)</u>
Nonoperating revenues(expenses):				
Interest income	20	21	393	372
Interest expense	16	16	(156)	(172)
Other sources	-	-	81	81
Net nonoperating revenue (expenses)	<u>36</u>	<u>37</u>	<u>318</u>	<u>281</u>
Income (loss) before transfers	(32)	65	(364)	(429)
Transfers in	530	530	1,526	996
Transfers out	-	84	(85)	169
Special item	-	-	(4,918)	4,918
Changes in net assets	<u>498</u>	<u>679</u>	<u>(3,841)</u>	<u>(4,520)</u>
Total net assets - beginning	5,154	5,154	5,154	-
Total net assets - ending	<u>\$ 5,652</u>	<u>\$ 5,833</u>	<u>1,313</u>	<u>\$ (4,520)</u>
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(79)	
Net assets of Enterprise Funds			<u>\$ 1,234</u>	

**This Page Intentionally Left Blank**

# STATISTICAL SECTION

CHEROKEE NATION  
COMPREHENSIVE ANNUAL FINANCIAL REPORT



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

- **Financial Trends** – Schedules which contain trend information to assist users in understanding how the government's financial position has changed over time.
- **Revenue Capacity** – Schedules which contain information relating to the government's most significant tax revenue sources.
- **Debt Capacity** – Schedules which present information to help the reader assess the government's current levels of outstanding debt and the ability to issue additional debt in the future.
- **Demographic and Economic 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)

	2003	2004	2005	2006	2007
Governmental Activities					
Invested in capital assets, net of related debt	\$ 25,655	\$ 29,403	\$ 35,969	\$ 47,627	\$ 53,781
Restricted	20,421	20,691	16,822	23,250	26,278
Unrestricted	53,444	65,566	66,627	69,039	83,373
Total governmental activities net assets	<u>99,520</u>	<u>115,660</u>	<u>119,418</u>	<u>139,916</u>	<u>163,432</u>
Business-type activities					
Invested in capital assets, net of related debt	4,839	4,388	5,519	4,653	162
Unrestricted	(372)	(685)	(361)	420	1,072
Total business-type activities net assets	<u>4,467</u>	<u>3,703</u>	<u>5,158</u>	<u>5,073</u>	<u>1,234</u>
Primary government					
Invested in capital assets, net of related debt	30,494	33,791	41,488	52,280	53,943
Restricted	20,421	20,691	16,822	23,250	26,278
Unrestricted	53,072	64,881	66,266	69,459	84,445
Total primary government net assets	<u>\$ 103,987</u>	<u>\$ 119,363</u>	<u>\$ 124,576</u>	<u>\$ 144,989</u>	<u>\$ 164,666</u>

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

	2003	2004	2005	2006	2007
<b>Expenses</b>					
Governmental activities:					
Tribal Government	\$ 12,075	\$ 13,627	\$ 17,023	\$ 16,433	\$ 21,624
Health Services	67,356	74,995	79,344	87,061	92,163
Education Services	32,423	32,901	33,429	36,588	39,096
Human Services	24,671	24,160	24,824	27,307	28,962
Community Services	51,252	35,163	35,060	42,867	49,131
Other Tribal Services	8,750	11,193	10,623	12,712	15,650
Interest on long-term debt	689	970	1,651	1,975	3,044
Total governmental activities expenses	197,216	193,009	201,954	224,943	249,670
Business-type activities:					
Tsa-La-Gi Apartments	359	356	352	390	388
Cherokee Trails Golf Club	192	39	-	-	-
Landfill Operations	1,982	1,917	2,252	1,794	2,853
EDTA	-	-	127	182	139
Ranch Operations	52	6	-	-	-
Child Development	1,358	1,235	1,048	-	-
Other Enterprises	1	-	15	7	18
Total business-type activities expenses	3,944	3,553	3,794	2,373	3,398
Total primary government expenses	\$ 201,160	\$ 196,562	\$ 205,748	\$ 227,316	\$ 253,068
<b>Program Revenues</b>					
Governmental activities:					
Charges for services:					
Tribal Government	\$ -	\$ -	\$ -	\$ 4	\$ 4
Other Tribal Services	405	1,237	2,001	2,572	2,938
Operating grants and contributions	113,394	100,209	104,278	108,177	128,822
Capital grants and contributions	-	-	-	411	142
Total governmental activities program revenues	113,799	101,446	106,279	111,164	131,906
Business-type activities:					
Charges for services:					
Tsa-La-Gi Apartments	384	437	475	492	498
Cherokee Trails Golf Club	70	6	-	-	-
Landfill Operations	2,109	1,355	1,937	1,216	2,044
EDTA	-	-	14	23	13
Ranch Operations	32	-	-	-	-
Child Development Centers	1,354	1,237	766	-	-
Other Enterprises	12	10	-	6	7
Operating grants and contributions	-	-	104	119	-
Total business-type activities program revenues	3,961	3,045	3,296	1,856	2,562
Total primary government program revenues	\$ 117,760	\$ 104,491	\$ 109,575	\$ 113,020	\$ 134,468
<b>Net (Expense)/Revenue</b>					
Governmental activities	\$ (83,417)	\$ (91,563)	\$ (95,675)	\$ (113,779)	\$ (117,764)
Business-type activities	17	(508)	(498)	(517)	(836)
Total primary government net expense	\$ (83,400)	\$ (92,071)	\$ (96,173)	\$ (114,296)	\$ (118,600)
<b>General Revenues and Other Changes in Net Assets</b>					
Governmental activities:					
Motor fuel tax	7,468	7,576	8,094	7,406	7,228
Motor vehicle tax	4,961	5,929	6,382	7,188	7,658
Tobacco tax	2,052	2,142	3,133	7,063	6,956
Gaming tax and licenses	611	262	-	-	-
Sales tax	310	249	686	1,144	1,215
Grants and contributions not restricted to specific programs	66,249	65,223	62,015	78,849	76,989
Unrestricted investment earnings	1,563	1,588	3,011	5,941	7,631
Indirect cost settlement	646	11,634	-	-	-
Dividends from component units	8,725	11,717	17,919	25,444	33,669
Arkansas River Drybed Lands Settlement	20,000	-	-	-	-
Miscellaneous revenue	1,144	1,232	898	1,199	1,375
Equity interest in joint venture	-	-	184	-	-
Gain/(loss) on disposals	-	1	-	-	-
Transfers	(122)	150	(2,889)	43	(1,441)
Total governmental activities	113,607	107,703	99,433	134,277	141,280
Business-type activities:					
Unrestricted investment earnings	61	19	52	334	393
Miscellaneous revenue	-	-	-	69	81
Gain/(loss) on disposals	32	(125)	-	72	-
Special item	-	-	-	-	(4,918)
Transfers	122	(150)	1,901	(43)	1,441
Total business-type activities	215	(256)	1,953	432	(3,003)
Total primary government	\$ 113,822	\$ 107,447	\$ 101,386	\$ 134,709	\$ 138,277
<b>Change in Net Assets</b>					
Governmental activities	\$ 30,190	\$ 16,140	\$ 3,758	\$ 20,498	\$ 23,516
Business-type activities	232	(764)	1,455	(85)	(3,839)
Total primary government	\$ 30,422	\$ 15,376	\$ 5,213	\$ 20,413	\$ 19,677

# CHEROKEE NATION

## GOVERNMENTAL ACTIVITIES - TAX REVENUES BY SOURCE LAST FIVE FISCAL YEARS (Dollars in Thousands)

---

<u>Year</u>	<u>Motor Fuel Tax</u>	<u>Motor Vehicle Tax</u>	<u>Tobacco Tax</u>	<u>Sales Tax</u>	<u>Total</u>
2007	\$ 7,228	\$ 7,658	\$ 6,956	\$ 1,215	\$ 23,057
2006	7,406	7,188	7,063	1,144	22,801
2005	8,094	6,382	3,133	686	18,295
2004	7,576	5,929	2,142	249	15,896
2003	7,468	4,961	2,052	310	14,791

**CHEROKEE NATION**

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

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
General Fund					
Reserved	\$ 30,535	\$ 33,287	\$ 34,792	\$ 36,282	\$ 42,220
Unreserved	4,638	10,726	24,175	36,576	38,861
Total general fund	<u>\$ 35,173</u>	<u>\$ 44,013</u>	<u>\$ 58,967</u>	<u>\$ 72,858</u>	<u>\$ 81,081</u>
All Other Governmental Funds					
Reserved	\$ 16,696	\$ 21,372	\$ 21,696	\$ 24,572	\$ 41,018
Unreserved, reported in:					
Special revenue funds	-	583	583	-	-
Capital projects fund	-	-	-	(524)	-
Total all other governmental funds	<u>\$ 16,696</u>	<u>\$ 21,955</u>	<u>\$ 22,279</u>	<u>\$ 24,048</u>	<u>\$ 41,018</u>

# CHEROKEE NATION

## CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS

LAST SIX FISCAL YEARS (Dollars in Thousands)

(modified accrual basis of accounting)

	2002	2003	2004	2005	2006	2007
<b>Revenues</b>						
Intergovernmental	\$151,117	\$167,594	\$150,516	\$147,048	\$166,252	\$178,508
Property rentals	451	394	585	461	513	575
Motor fuel tax revenues	7,294	7,468	7,576	8,676	7,406	7,228
Tax and license revenues	5,788	7,934	9,234	11,741	17,458	18,196
Interest	2,145	2,320	3,480	5,238	9,651	13,229
Trust fund income	29	24	90	79	104	67
Indirect cost settlement	254	-	646	8,314	2,201	-
Dividends from component units	4,050	8,725	11,717	17,919	25,444	33,669
Health 3rd party revenues	-	-	-	-	-	16,031
Other	11,011	11,773	19,916	27,185	22,202	14,095
Total revenues	182,139	206,232	203,760	226,661	251,231	281,598
<b>Expenditures</b>						
Tribal Government	9,964	10,484	13,645	15,956	15,029	21,377
Health Services	62,822	66,732	73,248	77,829	84,528	94,478
Education Services	29,463	31,936	32,158	32,567	35,788	39,618
Human Services	25,269	24,363	23,748	24,516	26,839	29,238
Community Services	41,631	61,537	44,486	46,643	42,420	49,318
Other tribal services	5,309	8,472	9,658	10,834	11,789	15,705
Debt service						
Principal	313	332	1,272	1,685	3,117	10,912
Interest	71	454	797	1,472	1,819	2,911
Capital outlay	5,289	3,017	1,934	9,659	18,162	26,190
Total expenditures	180,131	207,327	200,946	221,161	239,491	289,747
Excess of revenues over (under) expenditures	2,008	(1,095)	2,814	5,500	11,740	(8,149)
<b>Other Financing Sources (Uses)</b>						
Issuance of long-term debt	-	10,245	10,189	13,231	4,260	34,660
Fees associated with debt issuance	-	-	-	-	128	-
Insurance recoveries	-	-	-	-	27	8
Other proceeds	-	-	976	-	-	-
Transfers in	3,703	1,867	2,163	5,900	17,425	20,637
Transfers out	(8,994)	(2,132)	(2,043)	(9,353)	(17,920)	(21,963)
Total other financing sources (uses)	(5,291)	9,980	11,285	9,778	3,920	33,342
Net change in fund balances	\$ (3,283)	\$ 8,885	\$ 14,099	\$ 15,278	\$ 15,660	\$ 25,193
Debt service as a percentage of noncapital expenditures	0.22%	0.38%	1.04%	1.49%	2.23%	5.24%

## CHEROKEE NATION

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

---

<u>Year</u>	<u>Motor Vehicle Registrations</u>	<u>Boat/ Motor Registrations</u>	<u>Total All Registrations</u>
2007	20,548	723	21,271
2006	19,436	570	20,006
2005	17,803	587	18,390
2004	18,396	718	19,114
2003	18,099	671	18,770

Source: Cherokee Nation Tax Commission

**CHEROKEE NATION**

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

Fiscal Year	Charges for Services	Operating Grants & Contributions	Capital Grants & Contributions	Motor Fuel Tax	Motor Vehicle Tax	Other Tax Revenues	Unrestricted Grants & Contributions	Investment Earnings	Dividends from Components	Indirect Cost Settlement	Miscellaneous	Equity Interest in Joint Venture	Gain/(loss) on disposals	Total
2007	\$ 5,504	\$ 128,822	\$ 142	\$ 7,228	\$ 7,658	\$ 8,171	\$ 76,989	\$ 8,024	\$ 33,669	\$ -	\$ 1,456	\$ -	\$ -	\$ 277,663
2006	4,313	108,296	411	7,406	7,188	8,207	78,849	6,275	25,444	-	1,268	-	72	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	-	-	211,938
2003	4,366	113,394	-	7,468	4,961	2,973	66,249	1,624	8,725	646	1,144	-	-	211,550
2002	4,548	103,642	-	7,294	3,342	2,445	58,236	1,799	4,050	254	634	-	-	186,244
2001	4,289	120,105	-	6,895	-	2,062	-	3,282	4,300	4,377	5,081	-	-	150,391
2000	4,125	91,174	-	7,118	-	1,940	-	2,611	4,100	-	4,929	-	-	115,997
1999	4,681	86,360	-	6,932	-	1,772	-	1,818	2,410	-	4,468	-	-	108,441
1998	4,928	84,722	-	6,230	-	1,598	-	1,202	1,865	-	7,306	-	-	107,851

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 2007 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
2007	\$ 21,624	\$ 92,163	\$ 39,096	\$ 28,962	\$ 49,131	\$ 15,650	\$ 3,044	\$ 388	\$ -	\$ 2,853	\$ -	\$ 139	\$ -	\$ 18	\$ 253,068
2006	16,433	87,061	36,588	27,307	42,867	12,712	1,975	390	-	1,794	-	182	-	7	227,316
2005	17,023	79,344	33,429	24,824	35,060	10,623	1,651	352	-	2,252	-	1,115	1,048	15	206,736
2004	13,627	74,995	32,901	24,160	35,163	11,193	970	356	39	1,917	6	-	1,235	-	196,562
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

2002 through 2007 expenses are not comparable to 2001 and prior years due to the adoption of GASB 34

## CHEROKEE NATION

### OUTSTANDING DEBT BY TYPE

LAST SIX FISCAL YEARS (Dollars in Thousands)

Fiscal Year	Governmental Activities			Business-Type Activities		Total Primary Government
	Bonds	Term Loans	Capital Leases	Term Loans	Capital Leases	
2007	\$ 30,000	\$ 29,529	\$ 225	\$ 3,211	\$ 209	\$ 63,174
2006	-	36,258	600	3,352	295	40,505
2005	-	35,446	439	1,777	653	38,315
2004	-	25,331	523	849	368	27,071
2003	-	16,284	-	1,017	458	17,759
2002	-	3,514	-	902	298	4,714

97

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

The Nation does not keep personal income data on the citizenship within the Jurisdictional boundaries of the Nation.

**CHEROKEE NATION**

**PLEDGED-REVENUE COVERAGE**

**LAST FISCAL YEAR (Dollars in Thousands)**

Fiscal Year	Health Revenue Bonds						Coverage
	Beginning	Operating Revenues	Less:	Ending	Debt Service		
	Fund Balance		Operating Expenses	Fund Balance	Principal	Interest	
2007	\$ 7,697	\$ 74,750	\$ 77,258	\$ 5,189	\$ 1,540	\$ 1,237	1.87

Note: Debt service coverage is based upon third party revenue collections generated from Health Care System Operations.

## CHEROKEE NATION

### POPULATION BY COUNTY

---

	Native American 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

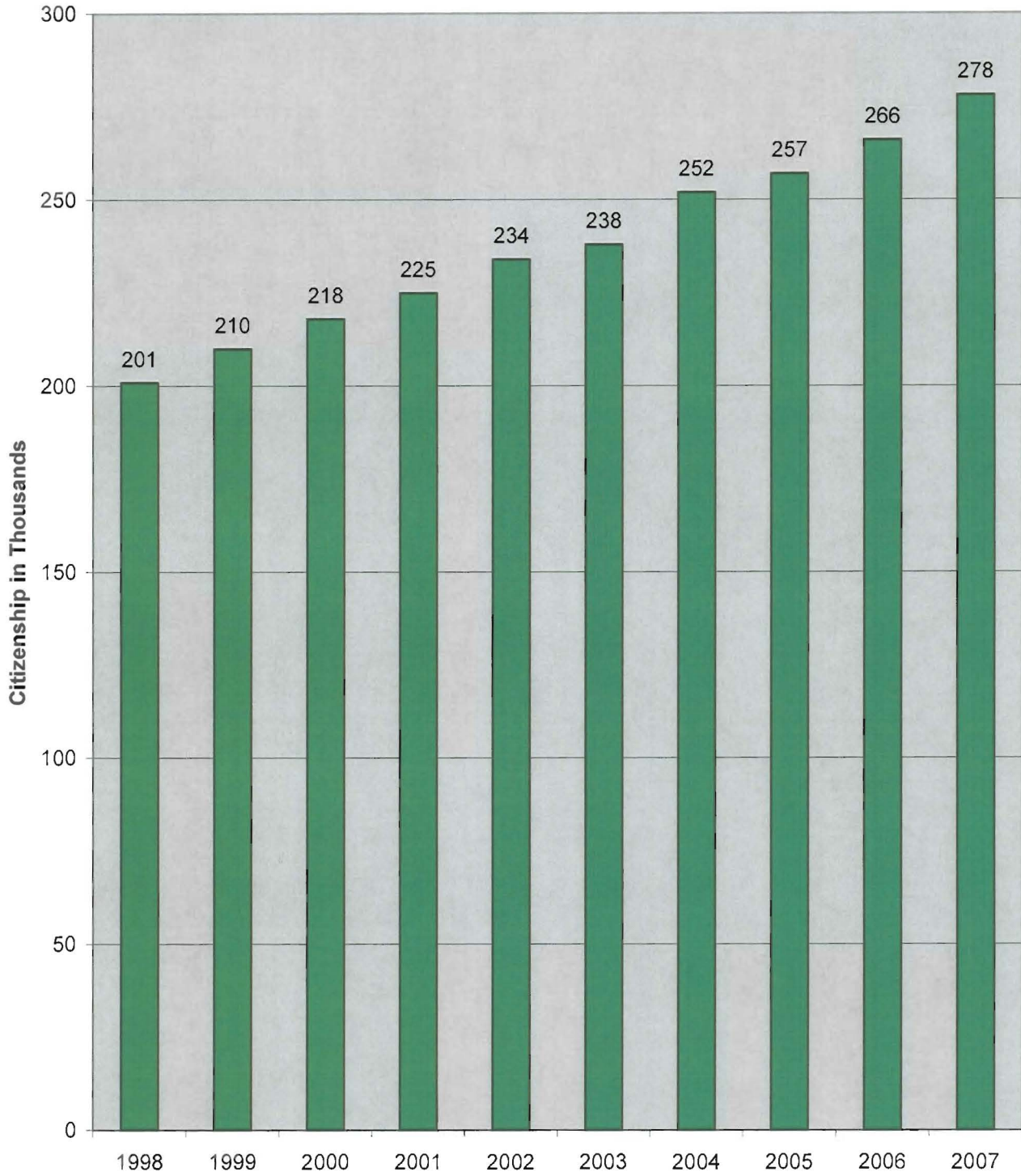
# CHEROKEE NATION

## TRIBAL LAND BASE (ACRES) BY COUNTY AS OF SEPTEMBER 30, 2007

County	Tribal Land	Government Land	Restricted Individual	Total Acres
<u>Cherokee Nation:</u>				
Oklahoma:				
Adair	13,602	19	10,411	24,032
Cherokee	1,204	325	9,439	10,968
Craig	273	-	1,843	2,116
Delaware	24,130	10	6,503	30,643
McIntosh	-	-	596	596
Mayes	368	10	5,364	5,742
Muskogee	400	-	2,342	2,742
Nowata	31	-	610	641
Ottawa	-	-	79	79
Rogers	472	10	801	1,283
Sequoyah	2,363	45	5,623	8,031
Tulsa	3	-	204	207
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>62,565</u>	<u>419</u>	<u>45,759</u>	<u>108,743</u>

Source: Cherokee Nation Land Department

**CHEROKEE NATION  
Tribal Citizenship Growth**



Source: Tribal Registration Department

# CHEROKEE NATION

## TRIBAL CITIZENSHIP BY DISTRICT

---

District	<u>2007</u>
Cherokee	16,759
Craig	6,998
Delaware	13,117
Keeler	13,527
Mayes	10,922
Sequoyah	12,868
Three Rivers	15,336
Trail of Tears	11,666
Will Rogers	11,009
Other	166,089
<b>Total Citizenship</b>	<u><u>278,291</u></u>

Source: Tribal Registration Department

# CHEROKEE NATION

## GOVERNMENT EMPLOYEES BY FUNCTION

Regular full-time employees only

---

	<u>2007</u>
<b>Function:</b>	
Tribal Government	238
Health Services	640
Education Services	387
Human Services	276
Community Services	163
Other Tribal Services	243
<b>Total</b>	<u><u>1,947</u></u>

Source: Financial Resources



## CHEROKEE NATION

### OPERATING INDICATORS BY FUNCTION

#### LAST FIVE FISCAL YEARS

(Dollars in Thousands)

Function/Program	2003	2004	2005	2006	2007
<b>Health Services</b>					
Primary provider visits*	122,570	109,379	117,270	121,650	119,358
Dental patient visits	24,519	25,482	22,199	21,436	23,050
Behavioral health patient visits	8,424	10,148	9,895	9,969	10,322
Optometry patient visits	12,802	13,700	13,472	14,259	14,548
Pharmacy patient visits	54,585	61,225	69,151	70,937	74,976
Other visits**	56,451	72,775	77,307	80,133	76,259
Pharmacy prescription filled	386,420	410,909	461,409	474,299	500,675
Number of new charts	8,139	8,407	7,166	7,074	6,659
Total number of charts	130,049	139,066	149,861	159,128	168,467
*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	2,193
Higher Education applications funded	1,900	2,085	2,236	2,164	2,095
Head Start students	270	260	284	317	838
Immersion Class students	-	-	-	25	42
Sequoyah High School students	360	372	382	400	381
<b>Human Services</b>					
Child Care children served through subsidy	3,869	3,742	3,606	3,708	3,649
Child Care contracted providers	1,019	1,075	994	915	801
Child Care technical assistance calls and visits	5,803	3,083	1,397	1,358	2,178
Child Care monitoring visits to caregivers	1,145	1,092	1,122	1,236	1,124
Food Distribution - individuals served	140,150	139,588	131,970	111,139	105,768
Food Distribution - households served	51,327	52,768	50,892	44,863	43,237
Tribal Work Experience program participants	219	308	313	192	13
Elder Service Advocacy individuals served	1,170	1,236	1,192	1,353	1,431
<b>Community Services</b>					
Roads/bridges project miles completed	64.20	97.24	96.01	101.72	66.12
Families served through rental assistance	n/a	n/a	2,121	3,695	2,927
Families subsidized in Title VI units	n/a	n/a	317	345	-
Rehabilitation of privately owned homes	n/a	n/a	89	119	305
Acquired or constructed individual homes for low-income families	n/a	n/a	34	31	1
<b>Other Tribal Services</b>					
Businesses funded through Commerce programs	n/a	n/a	4	6	7
Participants enrollments in IDA/YIDA	n/a	n/a	30	28	42

Source: Departments/programs as listed

**CHEROKEE NATION**

**CAPITAL ASSET UTILIZATION BY FUNCTION  
PRIMARY GOVERNMENT  
LAST FIVE FISCAL YEARS  
(Net of Depreciation, Dollars in Thousands)**

	2003	2004	2005	2006	2007
<b>Governmental activities:</b>					
Tribal Government	\$ 2,232	\$ 3,068	\$ 2,520	\$ 2,969	\$ 2,424
Health Services	1,911	1,847	2,197	12,883 *	33,898
Education Services	619	578	1,098	8,246 *	8,885
Human Services	534	436	328	242	396
Community Services	834	842	1,035	1,384	2,189
Other Tribal Services	25,564	27,984	33,620	30,719	32,502
Governmental activities, net	<u>\$ 31,694</u>	<u>\$ 34,755</u>	<u>\$ 40,798</u>	<u>\$ 56,443</u>	<u>\$ 80,294</u>
<b>Business -type activities:</b>					
Enterprise Funds	\$ 6,314	\$ 5,605	\$ 6,851	\$ 6,761	\$ 900 *
Business-type activities, net	<u>\$ 6,314</u>	<u>\$ 5,605</u>	<u>\$ 6,851</u>	<u>\$ 6,761</u>	<u>\$ 900</u>

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

\*In FY 2007, Enterprise fund decreased due to impairment of assets (see note 13).

**This Page Intentionally Left Blank**