

ᑭᑦᑦᑦᑦ ᑃᑦᑦᑦ  
CHEROKEE NATION®

Tahlequah, Oklahoma



Comprehensive Annual  
Financial Report

Fiscal Year Ended September 30, 2018







ᄎᄎᄎᄎ  
*Family*  
 A Bridge to the Future  
 A Link to the Past



— ᄎᄎᄎᄎ ᄎᄎᄎᄎ • We Watch Over the Money —

# 2018 COMPREHENSIVE ANNUAL FINANCIAL REPORT

FISCAL YEAR ENDED SEPTEMBER 30, 2018  
 PREPARED BY FINANCIAL RESOURCES DEPARTMENT  
 CHEROKEE NATION / TAHLEQUAH, OKLAHOMA



CHEROKEE NATION  
 Comprehensive Annual Financial Report  
 For the Year Ended September 30, 2018

TABLE OF CONTENTS

I. INTRODUCTORY SECTION

Transmittal Letter.....	1
Tribal Officials.....	6
Organizational Chart.....	7
Certificate of Achievement for Excellence in Financial Reporting.....	8

II. FINANCIAL SECTION

Independent Auditor's Report.....	9
Management's Discussion & Analysis.....	12

A. Basic Financial Statements

Government-wide Financial Statements	
Statement of Net Position.....	25
Statement of Activities.....	26
Fund Financial Statements	
Balance Sheet - Governmental Funds.....	27
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds.....	28
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.....	29
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual (GAAP Basis) - General Fund.....	30
Statement of Net Position - Proprietary Funds.....	31
Statement of Revenues, Expenses and Changes in Fund Net Position - Proprietary Funds.....	32
Statement of Cash Flows - Proprietary Funds.....	33
Combining Statement of Net Position - Component Units.....	34
Combining Statement of Revenues, Expenses and Changes in Net Position - Component Units.....	35
Recast of the Combining Statement of Revenues, Expenses and Changes in Net Position - Component Units to the Statement of Activities.....	36
Notes to Basic Financial Statements.....	37

## TABLE OF CONTENTS (CONTINUED)

### B. Other Supplementary Information

Nonmajor Governmental Funds	
Combining Balance Sheet - Nonmajor Governmental Funds.....	87
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds.....	88
Nonmajor Enterprise Funds	
Combining Statement of Net Position - Nonmajor Enterprise Funds.....	89
Combining Statement of Revenues, Expenses and Changes in Fund Net Position - Nonmajor Enterprise Funds.....	90
Combining Statement of Cash Flows - Nonmajor Enterprise Funds.....	91
Internal Service Funds	
Combining Statement of Net Position - Internal Service Funds.....	92
Combining Statement of Revenues, Expenses and Changes in Fund Net Position - Internal Service Funds.....	93
Combining Statement of Cash Flows - Internal Service Funds.....	94
Budgetary Information	
Schedule of Revenues, Expenses and Changes in Fund Net Position - Budget and Actual (GAAP Basis) - Enterprise Funds.....	95

### III. STATISTICAL SECTION

Schedule of Net Position by Component.....	96
Changes in Net Position.....	97
Governmental Activities - Tax Revenues by Source.....	98
Fund Balances, Governmental Funds.....	99
Changes in Fund Balances, Governmental Funds.....	100
Governmental Activities - Motor Vehicle Tax Registrations.....	101
General Governmental Revenues by Source (GAAP Basis).....	102
General Governmental Expenses by Function (GAAP Basis).....	103
Outstanding Debt by Type.....	104
Pledged-Revenue Coverage.....	105
Demographic and Economic Statistics.....	106
Principal Employers.....	107
Tribal Citizenship.....	108
Tribal Citizenship by District.....	109
Tribal Land Base (Acres) by County.....	110
Primary Government Employees by Function.....	111
Operating Indicators by Function.....	112
Capital Asset Utilization by Function, Primary Government.....	113
Cherokee Students by District.....	114



ᄒᆞᆫᆫᆫᆫ  
*Family*  
A Bridge to the Future  
A Link to the Past



Original Dawes Rolls Enrollees:  
Left to right; James F. Taylor and Soper Taylor

## INTRODUCTORY SECTION

2018 Comprehensive Annual Financial Report



GWYᏔ DᏔP  
**CHEROKEE NATION**<sup>®</sup>  
P.O. Box 948 • Tahlequah, OK 74465-0948 • 918-453-5000 • [cherokee.org](http://cherokee.org)

**Office of the Chief**

Bill John Baker  
*Principal Chief*  
ᏌᏉ ᏐᏁ ᏓᏍᏍᏁᏔᏁᏚ  
ᏌᏉᏐᏐᏐᏁᏔᏁ

S. Joe Crittenden  
*Deputy Principal Chief*  
Ꮤ. ᏐᏐ. ᏓᏐᏁᏁᏚ  
ᏔᏉᏐᏐ ᏔᏐᏐᏐ ᏌᏉᏐᏐᏐᏁᏔᏁ

March 29, 2019

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

We, the Cherokee Nation Financial Resources Department (Financial Resources), are pleased to submit the Comprehensive Annual Financial Report of the Cherokee Nation (the Nation) for the fiscal year ended September 30, 2018. 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 activities for the year ended September 30, 2018.

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

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

The Nation's basic financial statements were audited by BKD CPAs & Advisors whose role serves to provide reasonable assurance that the financial statements are fairly stated in all material respects. See "Independent Auditor's Report" included with the comprehensive report.

***Organization of the Government***

The Nation is the largest federally recognized government of the Cherokee people and is one of the largest federally recognized tribes in the United States. The Nation has sovereign reservation status granted by treaty and law. The Nation is located within the 14 counties of northeastern Oklahoma with the boundary running northerly and southeasterly from Tulsa, Oklahoma to the Kansas and Arkansas state borders. The Cherokee Nation reservation—which consists of 6,950 square miles and includes all of six counties and portions of eight other counties—was established with the historical boundaries of the Cherokee Nation after the Treaty of 1866.

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



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

#### *Executive Branch*

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

The Executive Branch of the Nation is organized with the Principal Chief and the Deputy Principal Chief serving as the final authorities of the administrative operations of the Nation. The Constitution provides for a three member Cabinet: the Treasurer, the Secretary of State and the Secretary of Natural Resources. The Treasurer, currently Lacey A. Horn, provides oversight and direction for the Nation on all financial matters, including annual budgets, investment of funds, and financial reporting in conformance with Generally Accepted Accounting Principles (GAAP). The Secretary of State, currently vacant, 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 Secretary of Natural Resources, currently Sara Hill, advises the Chief on natural resource issues and works to advance the Nation's top environmental strategic priorities.

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

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

#### *Legislative Branch*

The Legislature consists of seventeen (17) Tribal Council members, who are citizens of the Cherokee Nation. The Tribal Council is elected to four-year terms from the fifteen districts of the Cherokee Nation and two at-large members who represent citizens living outside the reservation. The Council elects a Speaker, currently Joe Byrd, and a Deputy Speaker, currently Victoria Vazquez. The role of the Tribal Council is to adopt legislation and to conduct other business in the best interest of the Cherokee people.

#### *Judicial Branch*

The Judicial Branch consists of the Supreme Court and the Cherokee Nation District Court. Supreme Court Justices are appointed by the Principal Chief and confirmed by the Tribal Council. The Chief Justice currently is James G. Wilcoxon. The primary responsibility of the Justices is to hear and resolve any disagreements arising under the provisions of the Constitution or any enactment of the Tribal



Council. The District Court system hears all cases brought before it under jurisdiction of the Cherokee Nation Code Annotated, Title 20, Courts and Procedure.

### ***Reporting Entity***

The Nation determines its financial reporting entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 “The Financial Reporting Entity”, GASB Statement No. 39, “Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No.14”, GASB Statement No. 61, “The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34”, GASB Statement No. 80, “Blending Requirements for Certain Component Units – an amendment of GASB Statement No. 14”, and GASB Statement No. 90, “Majority Equity Interests – an amendment of GASB Statements No. 14 and No. 61”, as applicable, and, based on that criterion, has included the following entities as component units within the Nation’s basic financial statements.

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

### ***Internal Controls***

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

### ***Single Audit***

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

As a part of the Nation’s single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the Nation has complied with applicable laws and regulations. The results of the Nation’s single audit process for the fiscal year ended September 30, 2018 will be included in a separately issued Single Audit Report.

## ***Budgetary Process***

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

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

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

## ***Long-Term Financial Planning***

Since fiscal year 2009, the Cherokee Nation primary government has increased its total assets by approximately \$1.3 billion or 302.6%. The Nation's long-term financial planning process involves a dedicated budgeting process that ensures discretionary resources are used to support the vision of the Nation: "Homes, Health, Hope." This planning process encompasses the annual financial budget process as well as long-term forecasting for use of the Nation's resources. Additionally, new ideas and efficiencies are continually being incorporated to further advance the Nation's initiatives which include greater emphasis on housing, healthcare, careers and education.

In December 2017, the Nation created the Cherokee Nation Sovereign Wealth Fund (CNSWF). The two largest funds within the CNSWF are the Education Reserve and the Emergency Reserve. Intended to provide financial security in the event of unforeseen future issues, these reserve funds will be invested for growth purposes under the direction of the Treasurer.

The Nation has continued to improve access to healthcare through the construction of new and expanded healthcare facilities funded in part by a \$109.5 million capital investment by CNB. In 2017, construction began on the latest healthcare facility project within this capital expansion campaign – the Tahlequah Outpatient Joint Venture Project. This project is primarily being financed through loan proceeds and remaining committed capital from CNB. It is estimated that when the facility is completed in 2019 that the Nation will receive approximately \$100 million annually in additional staffing and operational funding from Indian Health Services (IHS).

Through expansion of its component units, the Nation works to establish a productive, sustainable economy for the citizens of the Nation. In addition to creating greater opportunities through its

component units, the Nation has been successful in partnering with outside entities to attract new industries and create jobs within the Nation's reservation.

### ***Use of the Report***

This report will be submitted to the Federal Audit Clearinghouse in compliance with the requirements of the Office of Management and Budget (OMB) 2 CFR 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards". Copies of the reports will also be submitted to elected officials of the Nation and various other agencies which require copies as a condition of funding provided to the Nation under grants and contracts. Use of this report by the departments of the Nation is encouraged.

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

### ***Certificate of Achievement***

The Government Finance Officers Association (GFOA) of the United States and Canada awarded a Certificate of Achievement for Excellence in Financial Reporting to Cherokee Nation for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended September 30, 2017. This was the seventeenth consecutive year that the Nation has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both GAAP and applicable legal requirements.

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

### ***Acknowledgements***

The preparation of the 2018 CAFR was a tremendously involved task requiring the professional skills of the entire Financial Resources Department. I would like to express my gratitude to the Financial Resources Department for their dedication and continuous hard work. I would also like to thank BKD CPAs & Advisors, independent auditors for the Cherokee Nation, for their guidance and technical assistance in completing this CAFR.

Respectfully submitted,



Lacey A. Horn  
Treasurer  
Cherokee Nation



# Cherokee Nation Tribal Officials

## EXECUTIVE BRANCH

**Bill John Baker**  
Principal Chief

**S. Joe Crittenden**  
Deputy Principal Chief

---

## LEGISLATIVE BRANCH

**Joe Byrd**  
Speaker  
District 2

**Victoria Vazquez**  
Deputy Speaker  
District 11

**Rex Jordan**  
District 1

**David Walkingstick**  
District 3

**Mike Dobbins**  
District 4

**E.O. "Junior" Smith**  
District 5

**Bryan Warner**  
District 6

**Canaan Duncan**  
District 7

**Shawn Crittenden**  
District 8

**Mike Shambaugh**  
District 9

**Harley Buzzard**  
District 10

**Dick Lay**  
District 12

**Buel Anglen**  
District 13

**Keith Austin**  
District 14

**Janees Taylor**  
District 15

**Mary Baker Shaw**  
At Large

**Wanda Hatfield**  
At Large

---

## JUDICIAL BRANCH

### Supreme Court

**James G. Wilcoxon**  
Chief Justice

**John C. Garrett**  
Justice

**Lee Paden**  
Justice

**Lynn Burris**  
Justice

**Mark Dobbins**  
Justice

### District Court

**Crystal Jackson**  
Judge


**Luke Barteaux**  
Judge



# Cherokee Nation Organizational Chart

CHEROKEE NATION



Approval:  
  
 Bill John Baker, Principal Chief  
 Date: 9/21/18



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**Cherokee Nation  
Oklahoma**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**September 30, 2017**

*Christopher P. Morill*

Executive Director/CEO



ԵՆՈՐԹ  
*Family*  
A Bridge to the Future  
A Link to the Past



Original Dawes Rolls Enrollees:  
Clifton B. Taylor, Lugie Taylor

## FINANCIAL SECTION

2018 Comprehensive Annual Financial Report

## Independent Auditor's Report

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, 2018, and the related notes to the financial statements, which collectively comprise the Nation's basic financial statements, as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing Authority of the Cherokee Nation (HACN), the Cherokee Nation Comprehensive Care Agency (CNCCA), Cherokee Health Partners, LLC (CHP), the Cherokee Nation Foundation (CNF) or the Cherokee National Historical Society, Inc. (CNHS), which are discretely presented component units of the Nation. The financial statements of HACN, CNCCA, CHP, CNF and CNHS, which collectively comprise approximately 13.4% of total assets and 3.5% of total operating revenues of the aggregate discretely presented component units, were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for HACN, CNCCA, CHP, CNF and CNHS, is based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



Principal Chief and Tribal Council  
Cherokee Nation

appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Nation as of September 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in *Note 1* to the financial statements, in 2018, the Nation and its discretely presented component units changed their method of accounting for previously reported goodwill with the adoption of Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. Our opinions are not modified with respect to this matter.

### ***Required Supplementary Information***

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

### ***Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nation's basic financial statements. The accompanying other supplementary information, introductory section and statistical section, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying other supplementary information, as listed in the table of contents, is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other

Principal Chief and Tribal Council  
Cherokee Nation

records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying other supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections, as listed in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

*BKD, LLP*

Tulsa, Oklahoma  
March 29, 2019

## MANAGEMENT'S DISCUSSION AND ANALYSIS

The Nation's management provides Management's Discussion and Analysis (MD&A) of the Comprehensive Annual Financial Report (CAFR) as a tool for readers of the Nation's financial statements for the fiscal year ended September 30, 2018. Readers of the Nation's financial statements are encouraged to utilize this information in conjunction with the information provided in the letter of transmittal, which precedes this section, and the accompanying basic financial statements and disclosures following this section.

### *Financial Highlights*

The Nation's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the end of fiscal year 2018 by \$1.3 billion (net position). Of this total amount, \$72.2 million is unrestricted net position that may be used to meet the government's ongoing obligations.

The Nation's overall liabilities and deferred inflows of resources at the end of fiscal year 2018 increased by approximately \$131.5 million to \$392.0 million.

The overall net position increased by \$101.3 million, which is largely attributable to the recognition of income on investment in component units, capital contributions from CNB and dividends from component units.

The Nation's governmental funds reported total ending fund balance of \$197.7 million at the end of fiscal year 2018. This compares to the prior year ending fund balance of \$156.7 million showing an increase of \$41.0 million during the current year. Unassigned fund balance is \$21.3 million for fiscal year 2018.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$23.4 million or 22.5% of total General Fund expenditures including transfers out and 19.5% of total General Fund revenues including insurance recoveries and transfers in.

### *Overview of the Financial Statements*

#### *Basic Financial Statements*

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

#### *Government-wide Financial Statements*

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

The *Statement of Net Position* presents the assets, deferred outflows of resources, liabilities and deferred inflows of resources for the entire Nation, with the difference between the assets and deferred outflows of resources less liabilities and deferred inflows of resources reported as "net position." Increases or

decreases in net position over time can serve as an indicator of the improvement or decline in the Nation's financial position.

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

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

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

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

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

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

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

#### *Fund Financial Statements*

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

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



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

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government's near-term financing decisions. The Governmental Funds Balance Sheet and the Governmental Funds 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 27 and 29 of the financial statements.

The Nation maintains six major governmental funds, each presented in a separate column in the Governmental Funds Balance Sheet and in the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances. The Nation's six major governmental funds are the General, PL 102-477, Department of Transportation (DOT), Self Governance Department of Health and Human Services (DHHS), Housing and Urban Development (HUD) and Capital Projects Fund. In addition, the Nation maintains thirteen nonmajor governmental funds, shown aggregated, including two permanent funds to account for other governmental activity. The governmental funds statements can be found on pages 27 and 28 of this report.

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

The proprietary funds financial statements can be found on pages 31 - 33 following the governmental fund financial statements. The Nation's proprietary funds include Enterprise and Internal Service Funds, which are described below.

*Enterprise Funds* — The Nation has one major enterprise fund and three nonmajor enterprise funds for presentation purposes. The major fund is the Nation's Title VI Loan Fund. The nonmajor funds are the Nation's Tsa-La-Gi Apartments, CN Sanitary Landfill and Economic Development Trust Authority (EDTA). The nonmajor enterprise combining financial statements can be found on pages 89 - 91 of this report.

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

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

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

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

The internal service funds combining financial statements can be found on pages 92 - 94 of this report.

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

The financial statements for component units can be found on pages 34 - 36 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 37 - 86 of this report.

#### *Supplementary Information*

The basic financial statements are followed by a section of supplementary information. This section of the report includes combining schedules for nonmajor governmental and enterprise funds, internal service funds and a budgetary comparison schedule for the Nation's enterprise funds. The supplementary information section begins on page 87.

#### *Statistical Information*

The statistical section provides financial statement users with additional detailed information as a context for understanding the information in the financial statements, notes to the basic financial statements, and other supplementary information as it relates to the government's overall financial health. Included in the statistical section are schedules related to financial trends, revenue capacity, debt capacity, demographic and economic indicators, and operating information. The statistical information section begins on page 96.

#### *Comparative Analysis for Major Funds*

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

Major Fund	2018	2017	Increase/ (Decrease)	Percent Increase/ (Decrease)
<b>General Fund</b>				
Revenues, insurance recoveries and transfers in	\$ 119,895	\$ 101,029	\$ 18,866	18.7 %
Expenditures and transfers out	104,015	102,777	1,238	1.2 %
Fund Balance	115,204	99,324	15,880	16.0 %
<b>PL 102-477</b>				
Revenues, insurance recoveries and transfers in	18,569	16,539	2,030	12.3 %
Expenditures and transfers out	18,395	16,468	1,927	11.7 %
Fund Balance	931	757	174	23.0 %
<b>Department of Transportation</b>				
Revenues, insurance recoveries and transfers in	10,118	7,459	2,659	35.6 %
Expenditures and transfers out	10,118	7,459	2,659	35.6 %
Fund Balance	-	-	-	0.0 %
<b>Self Governance DHHS</b>				
Revenues, insurance recoveries and transfers in	334,945	296,354	38,591	13.0 %
Expenditures and transfers out	311,643	280,544	31,099	11.1 %
Fund Balance	61,955	38,653	23,302	60.3 %
<b>Housing and Urban Development</b>				
Revenues, insurance recoveries and transfers in	28,496	35,131	(6,635)	(18.9)%
Expenditures and transfers out	28,125	34,871	(6,746)	(19.3)%
Fund Balance	1,421	1,050	371	35.3 %
<b>Capital Projects Fund</b>				
Revenues, issuance of long-term debt and transfers in	82,700	36,801	45,899	124.7 %
Expenditures and transfers out	80,241	46,262	33,979	73.4 %
Fund Balance	(2,149)	(4,608)	2,459	53.4 %
<b>Title VI Loan Fund</b>				
Revenues and transfers in	34	46	(12)	(26.1)%
Expenses and transfers out	33	45	(12)	(26.7)%
Fund Balance	6	5	1	20.0 %

The General Fund represents the operating activities of the tribal government. The fund balance of the General Fund increased \$15.9 million during fiscal year 2018. Revenues increased due to receipt of a litigation settlement in fiscal year 2018 as well as increased dividends from component units, increased revenues from the MOU with the Marshal Service and increased fees collected for the Gaming Commission. General Fund received more transfers in of interest from the Self Governance DHHS and Department of Transportation programs during fiscal year 2018 as opposed to fiscal year 2017. Expenditures increased due to programs such as Contract Health Service Dividends, Marshal Service CNE Contract, Secretary of Natural Resources, Gaming Commission and Community Technical Assistance along with fewer transfers out to the Capital Projects Fund.

The PL 102-477 fund reported an increase in fund balance of \$0.2 million. PL 102-477 revenues and transfers in as well as expenditures and transfers out increased due to the program receiving additional funding during fiscal year 2018.

The Department of Transportation fund did not maintain fund balance at the end of fiscal year 2018. Department of Transportation saw both the revenues and transfers in and expenditures and transfers out increase primarily due to the number of road projects currently under construction.

In fiscal year 2018, the Self Governance DHHS fund reported an increase in fund balance of \$23.3 million. Self Governance DHHS revenues and transfers in increased in fiscal year 2018 due to expanded services and an increase in efficiency in third party revenue collections. Self Governance DHHS expenditures and transfers out increased in fiscal year 2018 as a result of expenditures for programs such as Health Equipment Replacement, Pharmacy Refill Center, Contract Health Service, Dental, Billing, Health Administration, Quality Management, Health IT System, EHS Projects, Stilwell, Jay, Sallisaw, Salina, Muskogee and Vinita Clinics and CN W.W. Hastings Hospital.

The Housing and Urban Development fund had an increase of \$0.4 million in fund balance. Housing and Urban Development saw revenues and transfers in as well as expenditures and transfers out decrease for programs primarily due to cost containment measures put in place to control spending due to the economic uncertainty of future federal funding levels.

In fiscal year 2018, the Capital Projects fund reported an increase in fund balance of \$2.5 million. Capital Projects fund revenues and transfers in increased due to draws on the construction loan for the joint venture outpatient healthcare facility. The Capital Projects fund expenditures and transfers out increased due to the construction of the joint venture outpatient healthcare facility. The construction projects are being funded through internal sources as well as a construction loan associated with the joint venture project to construct a new outpatient healthcare facility.

The fund balance of the Title VI Loan fund increased by \$1,000 in fiscal year 2018. Title VI Loan Fund revenues and transfers in decreased in fiscal year 2018 as compared to fiscal year 2017 due to decreased interest received on lower notes receivable balances. Title VI loan fund expenses and transfers out decreased as a result of lower balances outstanding on the notes payable.

### ***Government-Wide Financial Analysis***

#### ***Net Position***

Net position, over time, may serve as a useful indicator of a government's financial position. In the case of the Nation, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$1.3 billion at the close of the most recent fiscal year. The following table presents the Nation's net position for the primary government (dollars in thousands):

**Cherokee Nation's Net Position**

	Governmental		Business-Type		Total		Increase/ (Decrease)
	Activities		Activities				
	2018	2017	2018	2017	2018	2017	
Current and other assets	\$ 1,342,662	\$ 1,179,582	\$ 17,974	\$ 18,117	\$ 1,360,636	\$ 1,197,699	\$ 162,937
Capital assets	<u>321,432</u>	<u>250,750</u>	<u>1,231</u>	<u>1,706</u>	<u>322,663</u>	<u>252,456</u>	<u>70,207</u>
Total assets	<u>1,664,094</u>	<u>1,430,332</u>	<u>19,205</u>	<u>19,823</u>	<u>1,683,299</u>	<u>1,450,155</u>	<u>233,144</u>
Deferred outflows of resources	<u>18</u>	<u>381</u>	<u>-</u>	<u>-</u>	<u>18</u>	<u>381</u>	<u>(363)</u>
Long-term debt outstanding	117,804	47,704	1,983	3,883	119,787	51,587	68,200
Other liabilities	<u>258,219</u>	<u>200,838</u>	<u>3,590</u>	<u>3,407</u>	<u>261,809</u>	<u>204,245</u>	<u>57,564</u>
Total liabilities	<u>376,023</u>	<u>248,542</u>	<u>5,573</u>	<u>7,290</u>	<u>381,596</u>	<u>255,832</u>	<u>125,764</u>
Deferred inflows of resources	<u>10,402</u>	<u>4,652</u>	<u>-</u>	<u>-</u>	<u>10,402</u>	<u>4,652</u>	<u>5,750</u>
Net investment in capital assets	189,233	203,046	647	904	189,880	203,950	(14,070)
Restricted	1,029,195	940,814	-	287	1,029,195	941,101	88,094
Unrestricted	<u>59,259</u>	<u>33,659</u>	<u>12,985</u>	<u>11,342</u>	<u>72,244</u>	<u>45,001</u>	<u>27,243</u>
Total net position	<u>\$ 1,277,687</u>	<u>\$ 1,177,519</u>	<u>\$ 13,632</u>	<u>\$ 12,533</u>	<u>\$ 1,291,319</u>	<u>\$ 1,190,052</u>	<u>\$ 101,267</u>

The largest portion of the Nation's net position (79.7%) represents resources that are subject to external restrictions on how they may be used. An additional portion of the Nation's net position (14.7%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and vehicles), less any related outstanding debt that was used to acquire those assets. The Nation uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets are not available for future spending. Although the Nation's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The remaining balance of \$72.2 million is unrestricted and may be used to meet the government's ongoing obligations to its creditors and provide services to the citizens.

At September 30, 2018, the Nation reported positive net position for the government as a whole, as well as for its separate governmental and business-type activities. The Nation's overall net position increased \$101.3 million from the prior fiscal year. The reasons for this overall increase are discussed in the following section for governmental and business-type activities.

*Changes in Net Position*

The Nation's net position increased \$101.3 million, approximately 47.9% more than the prior year increase of \$68.5 million, for an ending balance of \$1.3 billion. The governmental activities and business-type activities had increases of \$100.2 million and \$1.1 million, respectively.

The Nation's total revenues increased 8.6% to \$668.6 million in fiscal year 2018. Program revenue generated \$549.5 million, consisting of charges for services, federal and state grants, and other

contributions, up from \$497.8 million from the prior fiscal year. Capital grants and contributions revenue decreased \$6.2 million in capital contributions related primarily to the timing of construction of new and expanded healthcare facilities to improve access to healthcare throughout the Nation.

Motor vehicle tax, the largest increase of the general revenues, increased \$0.8 million as a result of the expansion of the compact with the State of Oklahoma to include all tribal citizens within the state known as “At-Large” area, which is outside of the Nation’s reservation.

Expenses for the primary government increased 3.7% or \$20.4 million to \$567.3 million. The Nation’s expenses cover a range of services, including programs classified as tribal government, health services, education services, human services and community services functions. Significant changes include:

Tribal government expenses decreased \$7.8 million (19.1%). This decrease is due primarily as a result of a contribution of capital assets from the Capital Projects fund to the Internal Service Fund for the completion of the 2<sup>nd</sup> story addition of the W.W. Keeler Complex which was completed in fiscal year 2017.

Health services expenses increased \$21.1 million (6.8%) due to Pharmacy Refill Center, Health Equipment Replacement, Contract Health Service Dividends, Contract Health Service, Dental, Billing, Health Administration, Health IT System, Quality Management, MIS, Health Facilities, Stilwell, Sallisaw, Jay, Salina, Vinita and Muskogee Clinics and CN W.W. Hastings Hospital.

Education services expenses increased \$1.3 million (2.0%). This increase is due to increases for programs such as PL 102-477 Career Services, Head Start and MFT Higher Education Scholarships.

Human services expenses increased \$2.7 million (5.9%). This increase is attributed to increases for programs such as PL 102-477 Child Care, Child & Family Service, Child Support Enforcement, Cash in Lieu and Low Income Home Energy Assistance Program (LIHEAP).

Community services expenses increased \$1.6 million (2.1%) due to programs such as Department of Transportation Roads and Environmental Health Services Projects.

The changes in net position during 2018 are as follows (dollars in thousands):

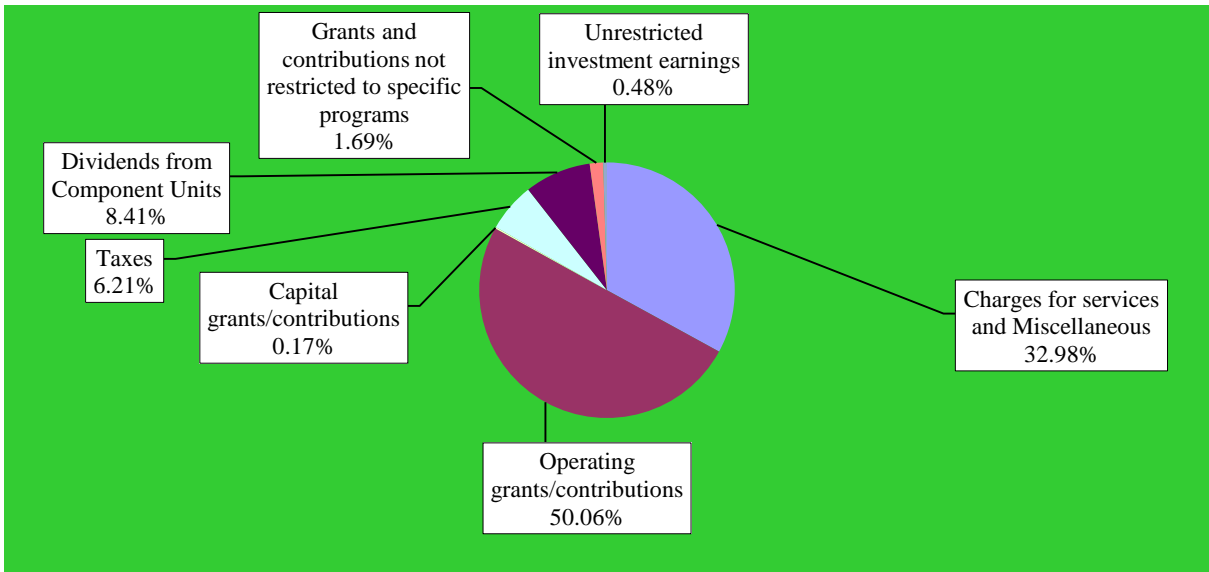


**Cherokee Nation's Changes in Net Position**

	<b>Governmental</b>		<b>Business-Type</b>		<b>Total</b>	
	<b>Activities</b>		<b>Activities</b>			
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 212,328	\$ 172,040	\$ 2,558	\$ 2,481	\$ 214,886	\$ 174,521
Operating grants/contributions	333,446	315,952	-	-	333,446	315,952
Capital grants/contributions	1,141	7,347	-	-	1,141	7,347
General revenues:						
Motor fuel tax	9,038	8,488	-	-	9,038	8,488
Motor vehicle tax	15,867	15,074	-	-	15,867	15,074
Tobacco tax and fees	11,831	12,254	-	-	11,831	12,254
Sales tax	4,616	4,106	-	-	4,616	4,106
Grants and contributions not restricted to specific programs	11,292	12,122	-	-	11,292	12,122
Unrestricted investment earnings	3,177	1,615	-	-	3,177	1,615
Litigation settlement	36	8,236	-	-	36	8,236
Dividends from component units	55,983	49,444	-	-	55,983	49,444
Miscellaneous	7,280	6,241	-	-	7,280	6,241
Total revenues	<u>666,035</u>	<u>612,919</u>	<u>2,558</u>	<u>2,481</u>	<u>668,593</u>	<u>615,400</u>
<b>Expenses:</b>						
Tribal government	33,171	41,010	-	-	33,171	41,010
Health services	333,037	311,892	-	-	333,037	311,892
Education services	66,958	65,666	-	-	66,958	65,666
Human services	48,750	46,048	-	-	48,750	46,048
Community services	79,903	78,290	-	-	79,903	78,290
Interest on long-term debt	2,385	943	-	-	2,385	943
Total governmental expenses	<u>564,204</u>	<u>543,849</u>	<u>-</u>	<u>-</u>	<u>564,204</u>	<u>543,849</u>
Title VI Loan Fund	-	-	33	45	33	45
Tsa-La-Gi Apartments	-	-	655	651	655	651
CN Solitary Landfill	-	-	2,184	2,329	2,184	2,329
EDTA	-	-	250	55	250	55
Total business-type expenses	<u>-</u>	<u>-</u>	<u>3,122</u>	<u>3,080</u>	<u>3,122</u>	<u>3,080</u>
Increase in net position before special items and transfers	101,831	69,070	(564)	(599)	101,267	68,471
Transfers	(1,663)	(1,653)	1,663	1,653	-	-
Change in net position	100,168	67,417	1,099	1,054	101,267	68,471
Net position—Beginning of year	<u>1,177,519</u>	<u>1,110,102</u>	<u>12,533</u>	<u>11,479</u>	<u>1,190,052</u>	<u>1,121,581</u>
Net position—End of year	<u>\$ 1,277,687</u>	<u>\$ 1,177,519</u>	<u>\$ 13,632</u>	<u>\$ 12,533</u>	<u>\$ 1,291,319</u>	<u>\$ 1,190,052</u>

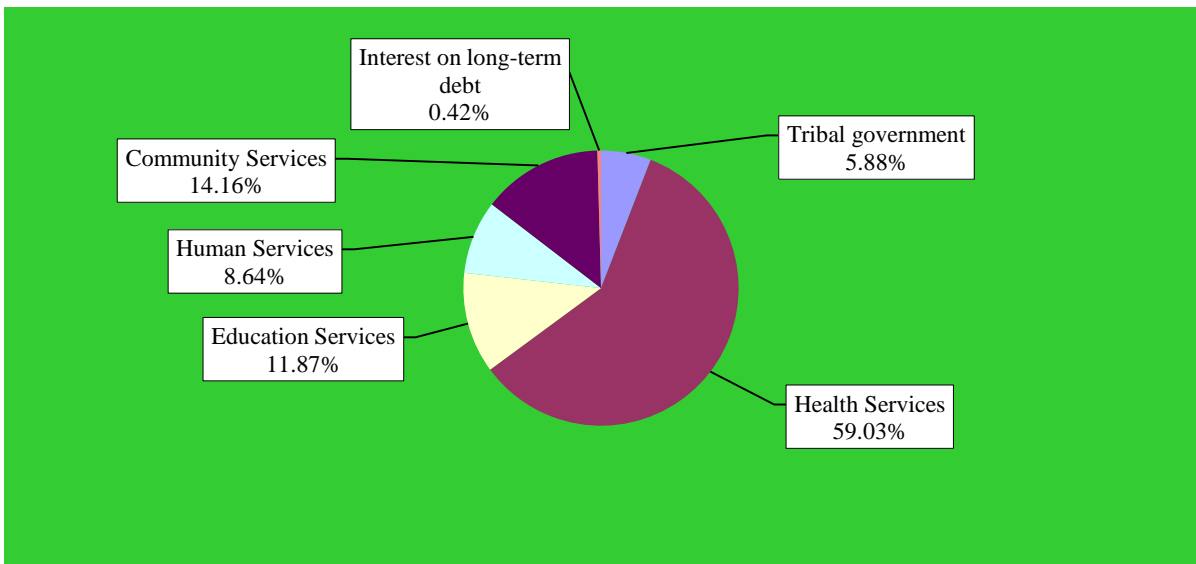
Graph 1 depicts revenues by source for the Governmental Activities of the Nation.

Graph 1 – Revenues by Source - Governmental Activities



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

Graph 2 - Expenses - Governmental Activities



For more detailed information on the charts presented above, refer to the Statement of Activities on page 26.

*Significant Budget Variations*

The Nation’s significant General Fund budget variations in 2018 were as follows (dollars in thousands):

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Original vs. Final</u>		<u>Actual</u>	<u>Budget vs. Actual</u>		
			<u>Increase/ (Decrease)</u>	<u>Percentage (Decrease)</u>		<u>Increase/ (Decrease)</u>	<u>Percentage (Decrease)</u>	
<b>Revenues:</b>								
Interest	59	334	275	466%	1,283	949	284%	
<b>Expenditures:</b>								
Tribal government	36,502	44,018	7,516	21%	24,209	(19,809)	(45%)	
Community services	40,281	43,292	3,011	7%	27,030	(16,262)	(38%)	
Capital outlay	4,908	4,928	20	0%	1,011	(3,917)	(79%)	

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

Interest — Actual revenue was more than budget primarily due to interest earnings on the MFT Education Reserve, CN Tax Commission Tag Office and General Fund Operations.

Tribal government — The actual expenditures were less than budget, primarily caused by reserves established for cash match for grants and contingencies which were not utilized in 2018 as well as other program expenditures not fully expended at the level budgeted for programs such as Employee Performance Incentive, TERO Job Training Programs, Tribal Election Fund, Facilities Improvement, Tribal Leases Realty, Attorney General, Litigation, Gaming Commission, MVT Local Law Enforcement and Government Relations.

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

Capital outlay — The Nation’s budget included approximately \$4.8 million for strategic land purchases from the proceeds of the Arkansas Riverbed settlement funds of which \$0.4 million was utilized during 2018. The unused portion of the budgeted balance was offset by increased capital expenditures that were more than budget for programs such as Facilities Improvement, CN Tax Commission Tag Office, Individual Water and Sewer, Community Water and Sewer, Marshal Service CNE Contract, Supreme Court and Gaming Commission.

*Capital Assets and Debt Administration*

The Nation's capital assets, net of depreciation, at the end of fiscal year 2018 were \$322.7 million. The Nation has no public domain (infrastructure) capital assets. The following table presents details of the Nation's capital assets, net of depreciation (dollars in thousands):

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Land and improvements	\$ 21,755	\$ 236	\$ 21,991
Construction in progress	105,677	-	105,677
Buildings and improvements	178,613	177	178,790
Equipment	15,387	818	16,205
Total capital assets	<u>\$ 321,432</u>	<u>\$ 1,231</u>	<u>\$ 322,663</u>

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

The Nation's long-term debt at the end of fiscal year 2018 was approximately \$119.8 million, primarily related to Title VI loan program and the joint venture construction project for an outpatient health facility in Tahlequah, Oklahoma. The following is a summary of long-term debt at September 30, 2018 (dollars in thousands):

	<b>Governmental Activities</b>	<b>Business-type Activities</b>	<b>Total</b>
Notes payable	\$ 117,804	\$ 1,399	\$ 119,203
Capital leases payable	-	584	584
Total long-term debt	<u>\$ 117,804</u>	<u>\$ 1,983</u>	<u>\$ 119,787</u>

The Nation, as a tribal government, has the ability to incur debt, similar to a state or local government. In July 2002, the Nation entered into an agreement with JP Morgan Chase, which was previously Bank One, guaranteed by the United States Department of Housing and Urban Development. The purpose of the credit facility was to loan money to the HACN which, in turn, used the money in the building of affordable housing for Tribal citizens. As of September 30, 2018, the outstanding balance of this credit facility totaled approximately \$0.5 million.

The Nation entered into a 15-year note in 2010 to finance the construction of a new clinic in Vinita, Oklahoma. The outstanding balance at September 30, 2018 is \$10.9 million.

The Nation entered into a construction loan for a new outpatient health facility in Tahlequah, Oklahoma during fiscal year 2016. Current year draw down of the loan was \$71.7 million.

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

### *Economic Factors and Next Year's Budget*

The Nation continues to provide vital services to the citizens. The outlook for 2019 revenue is projected to be flat for the General Fund due in part to the uncertainty of the federal budget outlook for 2019. Budgeted expenditures and transfers for the Nation's General Fund for fiscal year 2019 total \$160.9 million, approximately \$9.3 million less than the final amounts budgeted for fiscal year 2018 due to the conservative budgeting and spending practices implemented.

The Nation's federally funded programs are expected to receive stable levels of funding in the FY2019 federal budget. In July 2019, the Nation will begin to open the newly constructed W.W. Hastings Expansion Health Care Facility. This Indian Health Service Joint Venture Project is the largest project ever undertaken by the IHS and a Tribe. It is expected that annual federal appropriations for this facility will be approximately \$100 million annually. During FY2019, the Nation is expected to receive a partial year's funding to operate this facility.

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

### *Requests for Information*

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



# ᄒᆞᆫᆫᆫ Family

A Bridge to the Future  
A Link to the Past



Original Dawes Rolls Enrollees:  
Clockwise:

Eli Pumpkin, Jennie Wildcat Family  
l-r: John, Ely, Jeananna, Jennie,  
Elsie, Rosie

Michael Whitener, Aggie Keener  
(Enrollee), George Bigfeather (Enrollee)

Theodore (Enrollee) and  
Cornelia Taylor

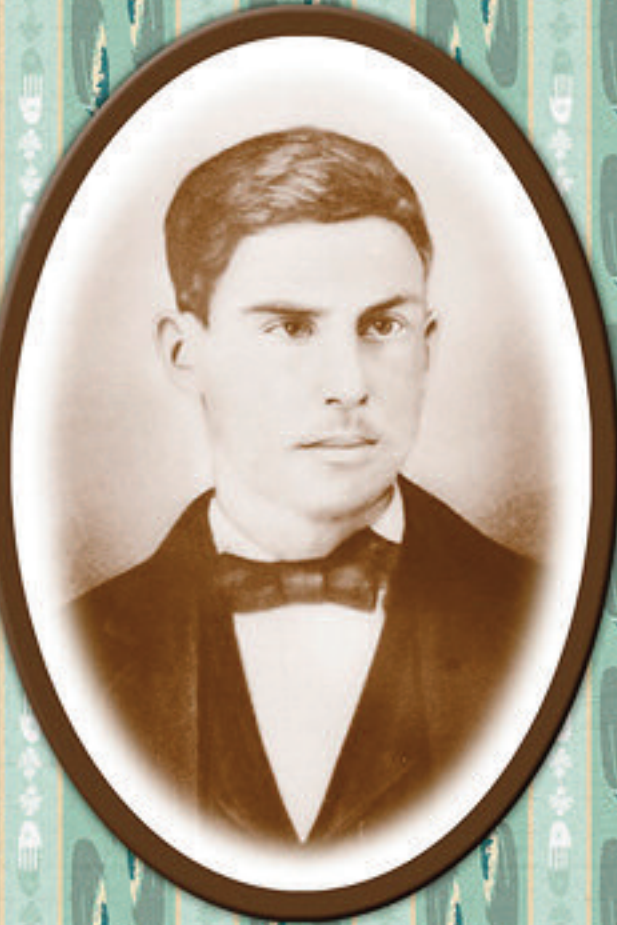


## BASIC FINANCIAL STATEMENTS

2018 Comprehensive Annual Financial Report



ᐃᓄᓄᓄ  
*Family*  
A Bridge to the Future  
A Link to the Past



Original Dawes Rolls Enrollee:  
Charles A. Fargo, Jr. and Wife, Rosa

## GOVERNMENT-WIDE FINANCIAL STATEMENTS

2018 Comprehensive Annual Financial Report

**CHEROKEE NATION**

**STATEMENT OF NET POSITION**

**SEPTEMBER 30, 2018**

**(Dollars in Thousands)**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 366,318	\$ 4,480	\$ 370,798	\$ 281,717
Investments	28,527	-	28,527	5,846
Accounts receivable, net	34,489	354	34,843	105,011
Internal Balances	946	(946)	-	-
Due from primary government	-	-	-	3,642
Due from component units	2,423	1	2,424	-
Inventories	5,719	-	5,719	12,305
Notes receivable	-	3,199	3,199	514
Other current assets	9,908	2	9,910	15,921
Restricted cash, cash equivalents and investments	523	3,300	3,823	10,115
Long-term notes receivable	1,473	7,584	9,057	13,915
Other assets	60	-	60	1,126
Investment in joint ventures/partnerships	-	-	-	6,784
Derivative instrument - rate swap	10,402	-	10,402	-
Equity interests in component units	881,874	-	881,874	-
Capital assets, non depreciable	126,453	236	126,689	102,049
Capital assets, depreciable, net	194,979	995	195,974	614,211
<b>Total assets</b>	<b>1,664,094</b>	<b>19,205</b>	<b>1,683,299</b>	<b>1,173,156</b>
<b>Deferred Outflows of Resources</b>				
Accumulated decrease in fair value of hedging derivative	18	-	18	-
Goodwill attributed to prior year business acquisitions	-	-	-	18,333
<b>Total deferred outflows of resources</b>	<b>18</b>	<b>-</b>	<b>18</b>	<b>18,333</b>
<b>Liabilities</b>				
Accounts payable	17,183	-	17,183	153,532
Accrued liabilities	53,505	27	53,532	-
Due to primary government	-	-	-	6,066
Other current liabilities	6,499	41	6,540	-
Unearned revenue	172,721	-	172,721	48
Notes payable and long-term debt				
Due within one year	3,489	530	4,019	1,890
Due in more than one year	114,315	869	115,184	55,756
Capital leases				
Due within one year	-	222	222	63
Due in more than one year	-	362	362	99
Compensated absences				
Due within one year	8,293	-	8,293	-
Derivative instrument - rate swap	18	-	18	-
Trust liabilities	-	-	-	3,082
Other noncurrent liabilities	-	3,522	3,522	-
<b>Total liabilities</b>	<b>376,023</b>	<b>5,573</b>	<b>381,596</b>	<b>220,536</b>
<b>Deferred Inflows of Resources</b>				
Accumulated increase in fair value of hedging derivatives	10,402	-	10,402	-
<b>Total deferred inflows of resources</b>	<b>10,402</b>	<b>-</b>	<b>10,402</b>	<b>-</b>
<b>Net Position</b>				
Net investment in capital assets	189,233	647	189,880	644,675
Restricted for:				
Education, Health, Roads and Safety (MFT)	47,791	-	47,791	-
Education, Roads and Safety (MVT)	14,919	-	14,919	-
Permanent Funds - expendable	87	-	87	-
Permanent Funds - nonexpendable	425	-	425	-
Construction	-	-	-	1,232
Debt service	-	-	-	535
Equity interests in component units	881,874	-	881,874	-
Equity interest of minority entity, nonexpendable	-	-	-	1,853
Investment in partnership/joint ventures	-	-	-	1,378
Program services	84,099	-	84,099	29,359
Unrestricted	59,259	12,985	72,244	291,921
<b>Total net position</b>	<b>\$ 1,277,687</b>	<b>\$ 13,632</b>	<b>\$ 1,291,319</b>	<b>\$ 970,953</b>

See notes to basic financial statements

**CHEROKEE NATION**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2018  
(Dollars in Thousands)**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units
					Governmental Activities	Business-type Activities	Total	
<b>Primary Government:</b>								
Governmental activities:								
Tribal government	\$ 33,171	\$ 5,709	\$ 2,347	\$ 1,090	\$ (24,025)	\$ -	\$ (24,025)	\$ -
Health services	333,037	140,884	209,862	51	17,760	-	17,760	-
Education services	66,958	-	30,287	-	(36,671)	-	(36,671)	-
Human services	48,750	-	37,674	-	(11,076)	-	(11,076)	-
Community services	79,903	15	53,276	-	(26,612)	-	(26,612)	-
Interest on long-term debt	2,385	-	-	-	(2,385)	-	(2,385)	-
Increase in equity in component units	-	65,720	-	-	65,720	-	65,720	-
Total governmental activities	564,204	212,328	333,446	1,141	(17,289)	-	(17,289)	-
Business-type activities:								
Title VI Loan Fund	33	34	-	-	-	1	1	-
Tsa-La-Gi Apartments	655	598	-	-	-	(57)	(57)	-
CN Sanitary Landfill	2,184	1,285	-	-	-	(899)	(899)	-
EDTA	250	641	-	-	-	391	391	-
Total business-type activities	3,122	2,558	-	-	-	(564)	(564)	-
Total primary government	\$ 567,326	\$ 214,886	\$ 333,446	\$ 1,141	(17,289)	(564)	(17,853)	-
Component Units	\$ 1,106,705	\$ 1,144,166	\$ 21,700	\$ -				59,161
General Revenues:								
					9,038	-	9,038	-
					15,867	-	15,867	-
					11,831	-	11,831	-
					4,616	-	4,616	-
					11,292	-	11,292	-
					3,177	-	3,177	2,986
					55,983	-	55,983	-
					36	-	36	-
					7,280	-	7,280	-
					-	-	-	207
Special Item:								
					-	-	-	1,181
Transfers					(1,663)	1,663	-	-
					117,457	1,663	119,120	4,374
					100,168	1,099	101,267	63,535
Net position - beginning					1,177,519	12,533	1,190,052	907,418
Net position - ending					\$ 1,277,687	\$ 13,632	\$ 1,291,319	\$ 970,953

See notes to basic financial statements



ፔብሊክ  
*Family*  
A Bridge to the Future  
A Link to the Past



John Kelly Taylor



Roger Taylor and  
Clint Taylor

FUND FINANCIAL STATEMENTS

2018 Comprehensive Annual Financial Report

**CHEROKEE NATION**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2018**

**(Dollars in Thousands)**

	<u>General</u>	<u>PL 102-477</u>	<u>Department of Transportation</u>	<u>Self Governance DHHS</u>	<u>Housing &amp; Urban Development</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>								
Cash and cash equivalents	\$ 119,960	\$ 38,011	\$ 80,002	\$ 82,409	\$ 24,052	\$ -	\$ 21,663	\$ 366,097
Investments	-	3,316	-	-	-	-	25,211	28,527
Receivables, net	4,187	35	-	22,755	71	-	6,345	33,393
Due from other funds	28,170	-	-	-	2,618	12,397	28	43,213
Due from component units	5,346	-	-	-	-	-	-	5,346
Inventories	-	-	-	4,000	-	-	1,467	5,467
Other current assets	3	-	-	8,272	-	-	840	9,115
Restricted cash, cash equivalents and investments	11	-	-	-	-	-	512	523
Long-term notes receivable	-	-	-	-	1,473	-	-	1,473
Total assets	<u>\$ 157,677</u>	<u>\$ 41,362</u>	<u>\$ 80,002</u>	<u>\$ 117,436</u>	<u>\$ 28,214</u>	<u>\$ 12,397</u>	<u>\$ 56,066</u>	<u>\$ 493,154</u>
<b>LIABILITIES</b>								
Accounts payable	\$ 17,183	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 17,183
Accrued liabilities	19,254	-	-	18,320	-	5,531	35	43,140
Due to other funds	6,015	1,617	1,859	27,629	-	9,015	11,349	57,484
Due to component units	-	-	-	-	3,252	-	-	3,252
Other liabilities	10	-	-	196	2	-	27	235
Unearned revenue	11	38,814	78,143	9,336	22,066	-	24,351	172,721
Total liabilities	<u>42,473</u>	<u>40,431</u>	<u>80,002</u>	<u>55,481</u>	<u>25,320</u>	<u>14,546</u>	<u>35,762</u>	<u>294,015</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>								
Unavailable revenue - notes receivables	-	-	-	-	1,473	-	-	1,473
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,473</u>	<u>-</u>	<u>-</u>	<u>1,473</u>
<b>FUND BALANCES</b>								
Nonspendable	-	-	-	12,272	-	-	425	12,697
Restricted	68,432	931	-	49,683	1,421	-	19,879	140,346
Committed	8,568	-	-	-	-	-	-	8,568
Assigned	14,792	-	-	-	-	-	-	14,792
Unassigned	23,412	-	-	-	-	(2,149)	-	21,263
Total fund balances (deficit)	<u>115,204</u>	<u>931</u>	<u>-</u>	<u>61,955</u>	<u>1,421</u>	<u>(2,149)</u>	<u>20,304</u>	<u>197,666</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 157,677</u>	<u>\$ 41,362</u>	<u>\$ 80,002</u>	<u>\$ 117,436</u>	<u>\$ 28,214</u>	<u>\$ 12,397</u>	<u>\$ 56,066</u>	

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.	294,976
The equity interests in component units is not an available resource and, therefore, is not reported in the funds.	881,874
Assets recorded in government-wide financial statements that are not available to pay for current period expenditures, therefore, are unavailable and not recorded in the funds.	1,473
Derivative instruments:	
Rate swaps not reported in governmental funds	10,384
Deferred outflows of resources used to accumulate decreases in fair value of hedging derivative also not reported in governmental funds	18
Deferred inflows of resources used to accumulate increases in fair value of hedging derivative also not reported in governmental funds	(10,402)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in the governmental activities in the statement of net position.	19,502
Liabilities that are not due and payable in the current period and, therefore, not reported in the funds.	(117,804)
Net position of governmental activities	<u>\$ 1,277,687</u>

**CHEROKEE NATION**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018  
(Dollars in Thousands)**

	<u>General</u>	<u>PL 102-477</u>	<u>Department of Transportation</u>	<u>Self Governance DHHS</u>	<u>Housing &amp; Urban Development</u>	<u>Capital Projects Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
<b>Revenues:</b>								
Intergovernmental	\$ -	\$ 17,483	\$ 9,458	\$ 192,232	\$ 27,823	\$ -	\$ 87,960	\$ 334,956
Property rentals	1,029	-	-	-	-	-	-	1,029
Motor fuel tax	9,038	-	-	-	-	-	-	9,038
Taxes, licenses and fees	37,009	-	-	-	-	-	-	37,009
Interest	1,283	222	647	807	144	-	807	3,910
Litigation settlement	8,272	-	-	-	-	-	-	8,272
Dividends from component units	55,983	-	-	-	-	-	-	55,983
Third party revenues	-	-	-	140,892	-	-	1,778	142,670
Other	5,765	864	-	489	397	-	7,027	14,542
Total revenues	<u>118,379</u>	<u>18,569</u>	<u>10,105</u>	<u>334,420</u>	<u>28,364</u>	<u>-</u>	<u>97,572</u>	<u>607,409</u>
<b>Expenditures:</b>								
<b>Current operating:</b>								
Tribal Government	24,209	-	-	173	-	857	6,567	31,806
Health Services	9,288	-	-	291,195	-	511	23,516	324,510
Education Services	32,788	3,252	-	-	-	-	30,500	66,540
Human Services	5,675	15,116	-	-	199	-	27,445	48,435
Community Services	27,030	-	9,393	6,735	27,830	-	7,829	78,817
<b>Debt service:</b>								
Principal	-	-	-	1,600	-	-	-	1,600
Interest	-	-	-	378	-	2,007	-	2,385
Capital outlay	1,011	27	78	2,934	-	76,637	1,737	82,424
Total expenditures	<u>100,001</u>	<u>18,395</u>	<u>9,471</u>	<u>303,015</u>	<u>28,029</u>	<u>80,012</u>	<u>97,594</u>	<u>636,517</u>
Excess (deficiency) of revenues over (under) expenditures	<u>18,378</u>	<u>174</u>	<u>634</u>	<u>31,405</u>	<u>335</u>	<u>(80,012)</u>	<u>(22)</u>	<u>(29,108)</u>
<b>Other financing sources (uses):</b>								
Issuance of long-term debt	-	-	-	-	-	71,700	-	71,700
Insurance recoveries	60	-	13	-	-	-	2	75
Transfers in	1,456	-	-	525	132	11,000	2,970	16,083
Transfers out	(4,014)	-	(647)	(8,628)	(96)	(229)	(4,136)	(17,750)
Total other financing sources (uses)	<u>(2,498)</u>	<u>-</u>	<u>(634)</u>	<u>(8,103)</u>	<u>36</u>	<u>82,471</u>	<u>(1,164)</u>	<u>70,108</u>
Net change in fund balances	15,880	174	-	23,302	371	2,459	(1,186)	41,000
Fund balance (deficit), October 1, 2017	<u>99,324</u>	<u>757</u>	<u>-</u>	<u>38,653</u>	<u>1,050</u>	<u>(4,608)</u>	<u>21,490</u>	<u>156,666</u>
Fund balance (deficit), September 30, 2018	<u>\$ 115,204</u>	<u>\$ 931</u>	<u>\$ -</u>	<u>\$ 61,955</u>	<u>\$ 1,421</u>	<u>\$ (2,149)</u>	<u>\$ 20,304</u>	<u>\$ 197,666</u>



# CHEROKEE NATION

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED SEPTEMBER 30, 2018 (Dollars in Thousands)

---

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

Net change in fund balances - total governmental funds	\$ 41,000
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.	68,138
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.	(8,236)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(70,100)
The increase in equity in component units, in the statement of activities, does not provide current financial resources and is not reported as revenues in the funds.	65,720
Some expenses are reported in the statement of activities when incurred and presented in the governmental funds when paid.	2,163
Contributions of capital assets recorded as revenue in the government-wide financial statements but not recorded at the governmental fund level.	1,141
The internal service funds are used to account for those activities which provide services to other functions within the government. The majority of the costs are allocated to the governmental funds in the government-wide financial statements. This amount is the net effect of the allocations.	<u>342</u>
Change in net position of governmental activities	<u>\$ 100,168</u>

See notes to basic financial statements

# CHEROKEE NATION

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -  
BUDGET AND ACTUAL (GAAP BASIS) - GENERAL FUND  
FOR THE YEAR ENDED SEPTEMBER 30, 2018  
(Dollars in Thousands)**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
Revenues:				
Property rentals	\$ 777	\$ 1,017	\$ 1,029	\$ 12
Motor fuel tax	7,949	7,949	9,038	1,089
Taxes, licenses and fees	34,997	34,997	37,009	2,012
Interest	59	334	1,283	949
Litigation settlement	-	-	8,272	8,272
Dividends from component units	45,500	47,658	55,983	8,325
Other	4,964	6,366	5,765	(601)
Total revenues	<u>94,246</u>	<u>98,321</u>	<u>118,379</u>	<u>20,058</u>
Expenditures:				
Tribal government	36,502	44,018	24,209	(19,809)
Health services	7,800	9,394	9,288	(106)
Education services	33,832	37,369	32,788	(4,581)
Human services	5,761	5,851	5,675	(176)
Community services	40,281	43,292	27,030	(16,262)
Capital outlay	4,908	4,928	1,011	(3,917)
Total expenditures	<u>129,084</u>	<u>144,852</u>	<u>100,001</u>	<u>(44,851)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(34,838)</u>	<u>(46,531)</u>	<u>18,378</u>	<u>64,909</u>
Other financing sources (uses):				
Insurance recoveries	-	49	60	11
Transfers in	19,113	21,520	1,456	(20,064)
Transfers out	(21,670)	(25,317)	(4,014)	21,303
Total other financing sources (uses)	<u>(2,557)</u>	<u>(3,748)</u>	<u>(2,498)</u>	<u>1,250</u>
Net change in fund balance	<u>(37,395)</u>	<u>(50,279)</u>	<u>15,880</u>	<u>66,159</u>
Fund balance, October 1, 2017	<u>99,324</u>	<u>99,324</u>	<u>99,324</u>	<u>-</u>
Fund balance, September 30, 2018	<u><b>\$61,929</b></u>	<u><b>\$49,045</b></u>	<u><b>\$115,204</b></u>	<u><b>\$ 66,159</b></u>

See notes to basic financial statements

# CHEROKEE NATION

## STATEMENT OF NET POSITION - PROPRIETARY FUNDS

SEPTEMBER 30, 2018

(Dollars in Thousands)

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Funds
	Title VI Loan Fund	Nonmajor Enterprise Funds	Total	
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 476	\$ 4,004	\$ 4,480	\$ 221
Accounts receivable, net	-	354	354	1,096
Due from other funds	-	-	-	17,347
Due from component units	1	-	1	329
Inventories	-	-	-	252
Notes receivable, current	465	2,734	3,199	-
Other current assets	-	2	2	793
Total current assets	942	7,094	8,036	20,038
Noncurrent assets:				
Restricted cash, cash equivalents and investments	-	3,300	3,300	-
Long-term notes receivable	-	7,584	7,584	-
Capital assets, net	-	1,231	1,231	26,456
Total noncurrent assets	-	12,115	12,115	26,456
Total assets	942	19,209	20,151	46,494
<b>LIABILITIES</b>				
Current liabilities:				
Accrued liabilities	1	26	27	10,365
Current portion of long-term debt	465	65	530	-
Current portion of capital leases	-	222	222	-
Due to other funds	470	476	946	2,130
Compensated absences	-	-	-	8,293
Other current liabilities	-	41	41	6,264
Total current liabilities	936	830	1,766	27,052
Noncurrent liabilities:				
Long-term debt	-	869	869	-
Capital leases payable	-	362	362	-
Other liabilities	-	3,462	3,462	-
Total noncurrent liabilities	-	4,693	4,693	-
Total liabilities	936	5,523	6,459	27,052
<b>NET POSITION</b>				
Net investment in capital assets	-	647	647	26,456
Unrestricted (deficit)	6	13,039	13,045	(7,014)
Total net position	\$ 6	\$ 13,686	13,692	\$ 19,442
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(60)	
Net position of business-type activities			\$ 13,632	

See notes to basic financial statements

**CHEROKEE NATION**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -  
 PROPRIETARY FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2018  
 (Dollars in Thousands)**

	<b>Business-type Activities- Enterprise Funds</b>			<b>Governmental Activities- Internal Service Funds</b>
	<b>Title VI Loan Fund</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>	
Operating revenues:				
Property rentals	\$ -	\$ 592	\$ 592	\$ 6
Charges for services and goods	-	1,226	1,226	137,209
Interest income, loans	33	502	535	-
Other	-	138	138	582
Total operating revenues	<u>33</u>	<u>2,458</u>	<u>2,491</u>	<u>137,797</u>
Operating expenses:				
Salaries and wages	-	662	662	115,358
Other services and charges	-	1,841	1,841	18,563
Materials and supplies	-	53	53	2,086
Depreciation	-	515	515	1,586
Total operating expenses	<u>-</u>	<u>3,071</u>	<u>3,071</u>	<u>137,593</u>
Operating income (loss)	<u>33</u>	<u>(613)</u>	<u>(580)</u>	<u>204</u>
Nonoperating revenues (expenses):				
Interest income	1	66	67	-
Interest expense	(33)	(24)	(57)	-
Insurance recoveries	-	-	-	140
Net nonoperating expenses	<u>(32)</u>	<u>42</u>	<u>10</u>	<u>140</u>
Income (loss) before transfers	1	(571)	(570)	344
Transfers in	-	1,663	1,663	4
Change in net position	1	1,092	1,093	348
Total net position - beginning	<u>5</u>	<u>12,594</u>		<u>19,094</u>
Total net position - ending	<u>\$ 6</u>	<u>\$ 13,686</u>		<u>\$ 19,442</u>
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			<u>6</u>	
Change in net position of business-type activities			<u>\$ 1,099</u>	

See notes to basic financial statements

**CHEROKEE NATION**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018  
(Dollars in Thousands)**

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Funds
	Title VI Loan Fund	Nonmajor Enterprise Funds	Total	
<b>Cash flows from operating activities:</b>				
Receipts from customers	\$ -	\$ 1,832	\$ 1,832	\$ 136,630
Payments to suppliers	(2)	(1,924)	(1,926)	(21,146)
Payments to employees	-	(662)	(662)	(114,829)
Internal activity - payments to other funds	-	293	293	898
Internal activity - payments from other funds	-	-	-	(1,574)
Internal activity - payments to component units	2	-	2	95
Internal activity - payments from component units	-	(22)	(22)	(17)
Interest received on loans	33	502	535	-
Other receipts	-	135	135	582
Other payments	-	(37)	(37)	-
Net cash provided by operating activities	<u>33</u>	<u>117</u>	<u>150</u>	<u>639</u>
<b>Cash flows from noncapital financing activities:</b>				
Transfer from other funds	-	1,663	1,663	4
Principal paid on notes payable	(1,618)	(64)	(1,682)	-
Interest paid on notes payable	(33)	(10)	(43)	-
Net cash provided by (used for) noncapital financing activities	<u>(1,651)</u>	<u>1,589</u>	<u>(62)</u>	<u>4</u>
<b>Cash flows from capital and related financing activities:</b>				
Purchases of capital assets	-	-	-	(619)
Proceeds from capital debt and leases	-	(218)	(218)	-
Interest paid on capital debt	-	(14)	(14)	-
Net cash (used for) capital and related financing activities	<u>-</u>	<u>(232)</u>	<u>(232)</u>	<u>(619)</u>
<b>Cash flows from investing activities:</b>				
Interest received	1	66	67	-
Payments received on notes receivable	1,618	-	1,618	-
Increase in notes receivable, net	-	(599)	(599)	-
Net cash provided by (used for) investing activities	<u>1,619</u>	<u>(533)</u>	<u>1,086</u>	<u>-</u>
Net increase in cash and cash equivalents	1	941	942	24
Cash and cash equivalents, October 1, 2017	<u>475</u>	<u>6,363</u>	<u>6,838</u>	<u>197</u>
Cash and cash equivalents, September 30, 2018	<u>\$ 476</u>	<u>\$ 7,304</u>	<u>\$ 7,780</u>	<u>\$ 221</u>
Cash and Cash Equivalents consist of:				
Unrestricted cash and cash equivalents	\$ 476	\$ 4,004	\$ 4,480	\$ 221
Restricted cash, cash equivalents and investments	-	3,300	3,300	-
Total Cash and Cash Equivalents, September 30, 2018	<u>\$ 476</u>	<u>\$ 7,304</u>	<u>\$ 7,780</u>	<u>\$ 221</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ 33	\$ (613)	\$ (580)	\$ 204
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	-	515	515	1,586
Change in assets and liabilities:				
Receivables, net	2	304	306	(1,027)
Inventories	-	-	-	(92)
Other current assets	-	-	-	(136)
Accounts and other payables	(2)	(89)	(91)	104
Net cash provided by operating activities	<u>\$ 33</u>	<u>\$ 117</u>	<u>\$ 150</u>	<u>\$ 639</u>

See notes to basic financial statements

**CHEROKEE NATION**

**COMBINING STATEMENT OF NET POSITION - COMPONENT UNITS**  
**SEPTEMBER 30, 2018**  
**(Dollars in Thousands)**

	<b>Cherokee Nation Businesses, LLC (CNB)</b>	<b>Housing Authority of the Cherokee Nation (HACN)</b>	<b>Cherokee Nation Comprehensive Care Agency (CNCCA)</b>	<b>Cherokee Nation Home Health Services, Inc. (CNHHS)</b>	<b>Cherokee Health Partners LLC (CHP)</b>	<b>Cherokee Nation Foundation (CNF)</b>	<b>Cherokee National Historical Society, Inc. (CNHS)</b>	<b>Total</b>
<b>ASSETS</b>								
Current assets:								
Cash and cash equivalents	\$ 271,501	\$ 5,531	\$ 2,147	\$ 100	\$ 2,173	\$ 146	\$ 119	\$ 281,717
Restricted cash	6,164	-	-	-	-	112	222	6,498
Investments	-	3,924	-	-	-	943	979	5,846
Receivables, net	101,867	1,393	-	409	1,306	-	36	105,011
Due from primary government	-	3,642	-	-	-	-	-	3,642
Inventories	11,766	-	-	-	506	-	33	12,305
Notes receivable	-	514	-	-	-	-	-	514
Other current assets	13,437	2,338	28	23	95	-	-	15,921
Total current assets	<u>404,735</u>	<u>17,342</u>	<u>2,175</u>	<u>532</u>	<u>4,080</u>	<u>1,201</u>	<u>1,389</u>	<u>431,454</u>
Noncurrent assets:								
Restricted investments	-	3,617	-	-	-	-	-	3,617
Notes receivable	-	13,915	-	-	-	-	-	13,915
Other assets	-	1,126	-	-	-	-	-	1,126
Investment in partnerships/joint ventures	5,032	1,378	-	-	374	-	-	6,784
Capital assets, net	<u>604,598</u>	<u>105,475</u>	<u>2,060</u>	<u>543</u>	<u>2,431</u>	<u>2</u>	<u>1,151</u>	<u>716,260</u>
Total noncurrent assets	<u>609,630</u>	<u>125,511</u>	<u>2,060</u>	<u>543</u>	<u>2,805</u>	<u>2</u>	<u>1,151</u>	<u>741,702</u>
Total assets	<u>1,014,365</u>	<u>142,853</u>	<u>4,235</u>	<u>1,075</u>	<u>6,885</u>	<u>1,203</u>	<u>2,540</u>	<u>1,173,156</u>
Deferred Outflows of Resources:								
Goodwill attributed to prior year business acquisitions	18,333	-	-	-	-	-	-	18,333
Total deferred outflows of resources	<u>18,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>18,333</u>
<b>LIABILITIES</b>								
Current liabilities:								
Accounts payable and accrued liabilities	146,905	3,343	1,177	341	1,748	10	8	153,532
Due to primary government	5,905	-	138	23	-	-	-	6,066
Unearned revenue	-	48	-	-	-	-	-	48
Current portion of notes payable	-	1,519	-	-	-	-	5	1,524
Current portion of long-term debt	-	-	-	50	316	-	-	366
Current portion of capital leases	-	-	-	63	-	-	-	63
Total current liabilities	<u>152,810</u>	<u>4,910</u>	<u>1,315</u>	<u>477</u>	<u>2,064</u>	<u>10</u>	<u>13</u>	<u>161,599</u>
Noncurrent liabilities:								
Trust liabilities	-	3,082	-	-	-	-	-	3,082
Notes payable	-	54,853	-	-	-	-	-	54,853
Long-term debt	-	-	-	424	403	-	76	903
Long-term capital leases	-	-	-	99	-	-	-	99
Total noncurrent liabilities	-	<u>57,935</u>	<u>-</u>	<u>523</u>	<u>403</u>	<u>-</u>	<u>76</u>	<u>58,937</u>
Total liabilities	<u>152,810</u>	<u>62,845</u>	<u>1,315</u>	<u>1,000</u>	<u>2,467</u>	<u>10</u>	<u>89</u>	<u>220,536</u>
<b>NET POSITION</b>								
Net investment in capital assets	590,073	49,568	2,060	185	1,712	2	1,075	644,675
Restricted, nonexpendable:								
Equity interest of minority entity	-	-	-	-	1,853	-	-	1,853
Restricted, expendable for:								
Debt service	-	535	-	-	-	-	-	535
Construction	1,232	-	-	-	-	-	-	1,232
Investment in partnership/joint ventures	-	1,378	-	-	-	-	-	1,378
Program services	-	28,527	-	-	-	258	574	29,359
Unrestricted	<u>288,583</u>	<u>-</u>	<u>860</u>	<u>(110)</u>	<u>853</u>	<u>933</u>	<u>802</u>	<u>291,921</u>
Total net position	<u>\$ 879,888</u>	<u>\$ 80,008</u>	<u>\$ 2,920</u>	<u>\$ 75</u>	<u>\$ 4,418</u>	<u>\$ 1,193</u>	<u>\$ 2,451</u>	<u>\$ 970,953</u>

See notes to basic financial statements



**CHEROKEE NATION**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -  
COMPONENT UNITS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018  
(Dollars in Thousands)**

	Cherokee Nation Businesses, LLC (CNB)	Housing Authority of the Cherokee Nation (HACN)	Cherokee Nation Comprehensive Care Agency (CNCCA)	Cherokee Nation Home Health Services, Inc. (CNHHS)	Cherokee Health Partners, LLC (CHP)	Cherokee Nation Foundation (CNF)	Cherokee National Historical Society, Inc. (CNHS)	Total
Operating revenues:								
Charges for services and goods	\$ 1,098,757	\$ 6,534	\$ 12,317	\$ 5,447	\$ 17,238	\$ -	\$ -	\$ 1,140,293
Income from investments in joint ventures	207	-	-	-	-	-	-	207
Other	-	1,292	-	58	-	1,041	1,482	3,873
Total operating revenues	1,098,964	7,826	12,317	5,505	17,238	1,041	1,482	1,144,373
Operating expenses:								
Cost of sales/operations	478,264	12,539	-	-	-	-	-	490,803
Salaries and wages	257,299	13,477	4,113	3,997	-	-	-	278,886
Other services and charges	176,309	186	7,838	1,375	15,572	711	1,401	203,392
Depreciation and amortization	53,991	6,349	195	73	210	-	-	60,818
Total operating expenses	965,863	32,551	12,146	5,445	15,782	711	1,401	1,033,899
Operating income (loss)	133,101	(24,725)	171	60	1,456	330	81	110,474
Nonoperating revenues (expenses):								
Grant revenue	-	21,700	-	-	-	-	-	21,700
Interest/investment income	2,222	744	9	-	-	-	11	2,986
Interest expense	(658)	(2,366)	(29)	(32)	(29)	-	-	(3,114)
Debt forgiveness	-	-	1,181	-	-	-	-	1,181
Other, net	185	321	2	-	264	-	-	772
Net nonoperating revenues (expenses)	1,749	20,399	1,163	(32)	235	-	11	23,525
Net Income (loss) before dividends and capital grants	134,850	(4,326)	1,334	28	1,691	330	92	133,999
Dividends to primary government	(55,983)	-	-	-	-	-	-	(55,983)
Distributions	-	-	-	-	(906)	-	-	(906)
Capital grants to Cherokee Nation and others	(13,575)	-	-	-	-	-	-	(13,575)
Change in net position	65,292	(4,326)	1,334	28	785	330	92	63,535
Net position, beginning of year	814,596	84,334	1,586	47	3,633	863	2,359	907,418
Net position, end of year	\$ 879,888	\$ 80,008	\$ 2,920	\$ 75	\$ 4,418	\$ 1,193	\$ 2,451	\$ 970,953

See notes to basic financial statements

## CHEROKEE NATION

RECAST OF THE COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION -  
 COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2018  
 (Dollars in Thousands)

	Discretely Presented Component Units	Government-wide - Statement of Activities				
		Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Revenues
Operating revenues:						
Charges for services and goods	\$ 1,140,293	\$ -	\$ 1,140,293	\$ -	\$ -	\$ -
Income (loss) from investments in joint ventures	207	-	-	-	-	207
Other	3,873	-	3,873	-	-	-
Total operating revenues	1,144,373	-	1,144,166	-	-	207
Operating expenses:						
Cost of sales/operations	490,803	490,803	-	-	-	-
Salaries and wages	278,886	278,886	-	-	-	-
Other services and charges	203,392	203,392	-	-	-	-
Depreciation and amortization	60,818	60,818	-	-	-	-
Total operating expenses	1,033,899	1,033,899	-	-	-	-
Operating income (loss)	110,474	(1,033,899)	1,144,166	-	-	207
Nonoperating revenues (expenses):						
Grant revenue	21,700	-	-	21,700	-	-
Interest/investment income	2,986	-	-	-	-	2,986
Interest expense	(3,114)	(3,114)	-	-	-	-
Debt forgiveness	1,181	-	-	-	-	1,181
Other, net	772	772	-	-	-	-
Net nonoperating revenues (expenses)	23,525	(2,342)	-	21,700	-	4,167
Net Income (loss) before dividends and capital grants	133,999	(1,036,241)	1,144,166	21,700	-	4,374
Dividends to primary government	(55,983)	(55,983)	-	-	-	-
Distributions	(906)	(906)	-	-	-	-
Capital grants to Cherokee Nation and others	(13,575)	(13,575)	-	-	-	-
Change in net position	63,535	(1,106,705)	1,144,166	21,700	-	4,374
Net position, beginning of year	907,418	-	-	-	-	907,418
Net position, end of year	\$ 970,953	\$ (1,106,705)	\$ 1,144,166	\$ 21,700	\$ -	\$ 911,792

See notes to basic financial statements

ᄒᄒᄒᄒ  
*Family*  
A Bridge to the Future  
A Link to the Past



Original Dawes Rolls Enrollees:  
Clockwise:

Silas Carey

Jesse T. Henson

Gallitsa Bluebird (Enrollee), Jack Bluebird,  
Nellie Bluebird (Enrollee)

## NOTES TO BASIC FINANCIAL STATEMENTS

2018 Comprehensive Annual Financial Report



## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### *General Information and Basis of Presentation*

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

### *Reporting Entity*

The Nation is a sovereign tribal government with Executive, Legislative, and Judicial Branches. The basic financial statements of the Nation present the reporting entity, which consists of the primary government, organizations for which the primary government is financially accountable, and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion could cause the Nation's basic financial statements to be misleading or incomplete. Accordingly, the accompanying basic financial statements reflect the financial position and the operations of the Nation for all amounts received, disbursed, or in the custody of the Nation or the United States Department of Interior (DOI) and the United States Treasury, as its trustee, as well as all other funds and activities over which the Nation exercises financial accountability. The Nation's basic financial statements do not include the financial position or activities of various federal and state governmental agencies operating within tribal lands. The Nation determines its financial reporting entity in accordance with Governmental Accounting Standards Board (GASB) Statement No. 14 *The Financial Reporting Entity*, GASB Statement No. 39, *Determining Whether Certain Organizations Are Component Units - an amendment of GASB Statement No. 14*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus - an amendment of GASB Statements No. 14 and No. 34*, GASB Statement No. 80, *Blending Requirements for Certain Component Units - an amendment of GASB Statement No. 14*, and GASB Statement No. 90, *Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61*, as applicable, 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 the Principal Chief, upon Legislative approval, has the ability to appoint and remove members of the component units governing boards at will. In addition, the component units do not provide services entirely or almost entirely to the primary government or for the benefit of the primary government. The following component units are included in the reporting entity because the primary government is financially accountable for and is able to impose its will on these organizations.

Cherokee Nation Businesses, LLC (CNB) — CNB, a tribal limited liability company, was created June 16, 2004, to provide “decision support” services and strategic coordination of business activities for the Nation and to act as a holding corporation for certain Nation business enterprises and joint venture investments. The Nation created CNB and is able to exert significant influence over CNB's activities as a result of its relationship to CNB and board member appointments. CNB and the companies it owns are managed through a board of directors appointed by the Principal Chief of the Nation and confirmed by the Cherokee Nation Tribal Council. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, CNB is included in the Nation's financial report as a discretely presented component unit. As of September 30, 2018, CNB reported the following blended component units:

Cherokee Nation Entertainment, LLC (CNE) — CNE is a tribal limited liability company organized under the laws of the Nation. The Nation conducts all of its gaming and entertainment activities through CNE. For reporting purposes, CNE is included as a blended component unit of CNB which is a

discretely presented component unit of the Nation. At September 30, 2018, CNE operates nine casinos, a horse racing facility with electronic gaming machines, two retail smoke shop facilities that include electronic gaming machines and other retail facilities including an additional smoke shop, a travel plaza that includes electronic games, a convenience store and a gift shop. CNE's gaming and entertainment operations include food and beverage venues, hotels, live entertainment venues, two 18-hole and one 9-hole golf courses. CNE is headquartered in Catoosa, Oklahoma.

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

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

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

Will Rogers Downs Disseminating, LLC (WRDD) — WRDD is a limited liability company organized under the laws of the Nation created for the purpose of disseminating simulcast signals associated with horse racing and off-track betting.

Other CNB blended component units by business sector include:

### **Technology Sector**

- Cherokee Nation Security & Defense, LLC (CNSD) is a tribal limited liability company created in 2009 that provides state-of-the-art critical site infrastructure protection, security surveillance services, access control technologies and security integration for both government and commercial clients. CNSD is headquartered in Tulsa.
- Cherokee Nation Strategic Programs, LLC (CNSP) is an Oklahoma limited liability company, was formed in 2014 to provide research and development, unmanned aircraft systems testing and evaluation and risk vulnerability assessments and related training support. CNSP is headquartered in Tulsa.
- Cherokee Nation Defense Solutions, LLC (CNDS) is a tribal limited liability company created in 2008 that provides state-of-the-art critical site infrastructure protection and cybersecurity surveillance services to both government and commercial clients. CNDS is headquartered in Tulsa.
- Cherokee Services Group, LLC (CSG) is a tribal limited liability company established in 2005 that provides professional staffing and other professional services to the federal

government and, to a lesser extent, commercial customers. CSG has received 8(a) certification from the U.S. Small Business Administration. Headquartered in Tulsa, Oklahoma, CSG has a regional office in Fort Collins, Colorado and 22 additional offices nationwide.

- Cherokee Nation Technologies, LLC (CNT) is a tribal limited liability company that provides professional staffing and other professional services to the federal government and, to a lesser extent, commercial customers since 2009. The company is headquartered in Tulsa, Oklahoma, with a regional office in Fort Collins, Colorado and client locations nationwide.
- Cherokee Nation System Solutions, LLC (CNSS) is a tribal limited liability company formed in 2016 that provides professional staffing and other professional services to the federal government and, to a lesser extent, commercial customers. CNSS is headquartered in Tulsa.

### **Consulting Sector**

- Cherokee Nation Government Solutions, LLC (CNGS) is a tribal limited liability company that provides professional/technical services and project support to a broad list of government and commercial clients since 2011. With over 400 employees, CNGS locates specific candidates for rapid response requests in areas including science, engineering, construction, information technology, research and development, facilities management, program management and mission support. CNGS is headquartered in Tulsa.
- Cherokee Nation Technology Solutions, LLC (CNTS) is a tribal limited liability company headquartered in Tulsa that provides professional/technical services and project support to a broad list of government and commercial clients. CNTS specializes in locating hard to find candidates for rapid response requests throughout the country. It provides a tailored management approach for complex government programs and disciplines including information technology, science, engineering, construction, research and development, facilities management, program management and mission support.
- Cherokee Nation Management & Consulting, LLC (CNM&C) is a tribal limited liability company formed in 2013 and headquartered in Tulsa that provides program and project management solutions for government clients. CNM&C has expertise in a wide-range of technical disciplines including engineering, environmental, information and asset management, along with a variety of physical and life sciences.
- Cherokee Nation Mission Solutions, LLC (CNMS) is an Oklahoma limited liability company that provides program management and healthcare staffing services primarily for government clients since its formation in 2013. CNMS delivers management and support for a variety of programs and projects ranging from medical studies, analysis, research, wellness, telemedicine and clinical operations. CNMS promptly provides cost effective staffing of clinical, administrative, technical, and scientific professionals. CNMS is headquartered in Tulsa.
- Cherokee Nation Support, Service, and Solutions, LLC (CN3S) is a tribal limited liability company that provides staffing services in the education industry as well as logistics and distribution for the aviation industry since 2012. CN3S is headquartered in Tulsa, Oklahoma.
- Cherokee Nation Federal Consulting, LLC (CNFC) was organized on January 1, 2018, as a tribal limited liability company that will provide professional services and program management solutions to government clients. CNFC is headquartered in Tulsa, Oklahoma.



- Cherokee Nation Solutions Link, LLC (CNSL) was organized April 16, 2018, as a tribal limited liability company to provide consulting services to government and commercial clients. CNSL is headquartered in Tulsa, Oklahoma.

### **Health Sciences Sector**

- Cherokee Nation Assurance, LLC (CNA) is a tribal limited liability company that provides technology solutions specializing in delivering information technology, management consulting, program support and professional support services created in 2011. CNA's full scope of computer and technology related services include enterprise architecture, application development, database administration, systems administration, networking, security compliance, configuration management, infrastructure services, video surveillance, and access control and professional IT services. CNA is headquartered in Tulsa.
- Cherokee Medical Services, LLC (CMS) is an Oklahoma limited liability company headquartered in Tulsa that provides employee staffing for the medical industry.
- Cherokee Nation Healthcare Services, LLC (CNHS, LLC) is a tribal limited liability company that provides employee staffing for the medical industry. CNHS, LLC is headquartered in Tulsa.
- Cherokee Nation Diagnostic Innovations, LLC (CNDI) is a tribal limited liability company formed in 2015 to provide innovative medical device and related technology solutions to commercial healthcare providers. CNDI is headquartered in Tulsa.
- Cherokee Nation Integrated Health, LLC (CNIH) is a tribal limited liability company that provides healthcare consulting, technology, analytics, medical readiness and a full spectrum of mission critical support to government clients. CNIH is headquartered in Tulsa, Oklahoma.

### **Environmental and Construction Sector**

- Cherokee Nation Construction Services, LLC (CNCS) is a tribal limited liability company formed in 2008 that provides construction-related services, including general contracting, oversight of construction projects and safety training. CNCS has offices in Tulsa, Oklahoma and Dover, Delaware.
- Cherokee Nation Environmental Solutions, LLC (CNES) is a tribal limited liability company that provides environmental services for both commercial and government clients formed in 2013. CNES is based in Tulsa, Oklahoma.
- Cherokee Nation Mechanical, LLC (CNM) is tribal limited liability company formed in 2016 to provide construction management and HVAC services primarily to commercial customers. CNM is based in Tulsa.
- Cherokee Nation Facilities Management, LLC (CNFM) is a tribal limited liability company headquartered in Tulsa that provides facilities management services to government and commercial clients and was formed in 2013.
- Cherokee Nation Development Group, LLC (CNDG) is a tribal limited liability company that was formed in 2017 to provide construction management services to government clients. CNDG is headquartered in Catoosa, Oklahoma.

- Cherokee CRC, LLC (CCRC) is an Oklahoma limited liability company that provides construction-related activities, including general contracting and construction management. CCRC was formed in 2005 and is based in Tulsa, Oklahoma.

### **Engineering and Manufacturing Sector**

- CND, LLC (CND) is an Oklahoma limited liability company formed in 2004 that provides production, distribution and assembly of electronic component parts and wiring systems primarily for commercial customers. CND is based in Stilwell, Oklahoma.
- Cherokee Nation Red Wing, LLC (CNRW) is a tribal limited liability company that provides kitting, manufacturing and program management for various cable, wire, panel, box, avionics and engine assemblies primarily for commercial customers. CNRW was acquired in February 2009 and reorganized as a limited liability company. CNRW operates out of 15,000+ square feet of expandable manufacturing space on seven acres in Pryor, Oklahoma as well as a presence in Tulsa.
- Cherokee Nation Armored Solutions, LLC (CNAS) is a tribal limited liability company that provides technical support services for the development, advancement, application and improvement of technology, processes and systems lifecycle support. CNAS changed its name from Cherokee Nation Metalworks, LLC (CNMW) to CNAS effective June 21, 2018. CNAS operates out of 20,000+ square feet of expandable machining space on seven acres in Pryor, Oklahoma.
- Cherokee Nation Aerospace & Defense, LLC (CNAD) is a tribal limited liability company based in Stilwell, Oklahoma that manufactures and integrates electromechanical assemblies primarily for commercial customers since its formation in 2008.

### **Logistics and Distribution Sector**

- Cherokee Nation Industries, LLC (CNI) is a tribal limited liability company that is a value-added reseller providing end-to-end distribution services and warehousing for some of the world's largest businesses in the telecommunications and electronics industry. CNI was established in 1969 to meet the need for business development and to generate revenue which helps the Nation and its members move toward economic self-sufficiency. CNI is headquartered in Stilwell, Oklahoma.
- Cherokee Nation Operational Solutions, LLC (CNOS) is a tribal limited liability company that distributes office products and supplies on behalf of Staples. CNOS changed its name from Cherokee Nation Office Solutions, LLC to CNOS effective August 17, 2018. CNOS is based in Pryor, Oklahoma.

### **Other CNB Companies**

- Cherokee Nation Property Management, LLC (CNPM) is a tribal limited liability company that conducts real estate acquisitions and development for CNB. CNPM was formed in 2010 and is headquartered in Catoosa, Oklahoma.
- Cherokee Nation Construction Resources, LLC (CNCR) is a tribal limited liability company that constructs healthcare facilities for the Nation as well as single-family homes. CNCR is headquartered in Tulsa, Oklahoma and was formed in 2013.

- Cherokee Nation Hospitality Consulting, LLC (CNHC) is a tribal limited liability company formed in 2015 that provides gaming and hospitality as well as casino management services. CNHC is headquartered in Catoosa, Oklahoma.
- Cherokee Nation Blue Ribbon Downs Training, LLC (BRDT) is a tribal limited liability company formed in 2015 to provide management of a horse racing training facility in Sallisaw, Oklahoma.
- CNB, through its affiliates, Cherokee Nation Management Corporation (CNMC), an Oklahoma corporation, and CNB Economic Development Company, LLC (EDC), an Oklahoma limited liability company, participates in the New Market Tax Credit (NMTC) Program established by Congress in 2000 to spur new or increased investments into operating businesses and real estate projects located in low-income communities. Under the NMTC Program, CNB was allocated the authority to issue \$60,000,000 of qualified equity investments (QEI), which are funded through investments and loans from third parties. Third parties providing equity investments for the QEIs receive the right to claim, over a period of seven years, NMTCs equivalent to a total of 39% of the total QEI (including loaned funds). As of September 30, 2018, \$60,000,000 of the allocation had been sub-allocated to eligible projects.
- CNB also holds an investment in a closely held entity, Aerospace Products S.E., Inc. (APSE), as follows:
  - APSE was formed in 1987 in Huntsville, Alabama and is a distributor of aerospace fasteners and a provider of supply chain services. CNB owns 75% of the stock of APSE and accounts for its investment in APSE using the equity method of accounting. APSE is headquartered in Huntsville and has offices in San Antonio, Texas and Wichita, Kansas. In 2018, CNB elected to early adopt GASB Statement No. 90, *Majority Equity Interest*, which provides that this interest in APSE be accounted for using the equity method. No financial adjustment was required in connection with the early adoption of GASB Statement No. 90. During the year ended September 30, 2018, CNB recognized earnings from APSE totaling \$208,000 and received no distributions. CNB's investment in APSE at September 30, 2018 was \$5,032,000.

CNB, CNE, WRD, CNMS, CNSP, and APSE all issue separate stand-alone financial statements.

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

Cherokee Affordable Housing, Inc. (CAH) — CAH is a non-profit 501(c)3 corporation organized under the laws of the State of Oklahoma created primarily to serve as the eligible 501(c)3 entity required to fill the position of general partner in the low income housing tax credit partnerships and related projects that have been developed by the HACN and a third party developer. The projects comprise 155 housing units and are managed by outside parties under management agreements as provided by the partnership agreements. CAH's financial activity is limited only to its role in the tax credit partnerships. The board of directors for CAH consists of the same board members of HACN. The president for CAH is the

executive director of HACN. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, CAH is included as a blended component unit in the HACN's financial statements.

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

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

Cherokee Nation Home Health Services, Inc. (CNHHS) — CNHHS, a tribal corporation, was organized for the purpose of engaging in home healthcare services. CNHHS is a discretely presented component unit of the Nation. Board members of CNHHS are appointed by the Nation's Principal Chief and approved by the Nation's Tribal Council. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, CNHHS is included in the Nation's financial report as a discretely presented component unit. The CNHHS primarily earns revenues by providing home health, hospice and other services to residents of Adair, Cherokee, Delaware, Mayes, Muskogee, Sequoyah and Wagoner counties, Oklahoma, and the surrounding area. Separately issued financial statements for CNHHS may be obtained from CNHHS's corporate office.

Cherokee Health Partners, LLC (CHP) — CNCCA and the Tahlequah Hospital Authority (THA), an unrelated entity, entered into an agreement on September 28, 2004, to create CHP which was 51% owned by CNCCA. CHP provides cardiac and other imaging services to residents of Tahlequah, Oklahoma and the surrounding area and is located in the Northeastern Health System. On May 12, 2014, CNCCA transferred their ownership to the Nation. The Managers selected by the Class Member A, the Nation, are appointed by the Principal Chief and confirmed by the Tribal Council. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, CHP is included in the Nation's financial report as a discretely presented component unit. During 2015, CHP purchased a 95% ownership in the Northeast Oklahoma Heart Center, LLC (NOHC). NOHC is a limited liability company organized under the Oklahoma Limited Liability Act in July 2005. NOHC provides cardiovascular management services to the THA. As a result of the ownership interest acquired, the operations of NOHC have been included in the accompanying financial statements. All information included in the Nation's financial statements for CHP is as of and for the fiscal period ended June 30, 2018. Separately issued financial statements for CHP may be obtained from CHP's office. CHP directly holds a joint venture interest in Northeastern Oklahoma Diagnostics, LLC as described below:

Northeastern Oklahoma Diagnostics, LLC (NOD) — NOD, formerly Tahlequah Diagnostic Imaging, LLC, was established in December 2002, to provide MRI, CT, hyperbarics and other imaging equipment previously provided by the THA. In its general appeal to capture all the business formerly provided by the THA, NOD solicits to serve everyone in the community. CHP has a 20% ownership in NOD. CHP used the equity method to account for the joint venture investment in NOD. CHP has recognized its proportionate share of NOD's distribution of approximately \$170,000 for the joint venture at June 30, 2018. CHPS's investment in NOD at June 30, 2018 was \$374,000.

Cherokee Nation Foundation (CNF) — CNF, formerly doing business as Cherokee Nation Education Corporation was incorporated in 1998, as a nonprofit corporation under Title 18 of the Cherokee Nation Code Annotated and has been granted tax-exempt status under Section 501(c)3 of the Internal Revenue Code. CNF is organized exclusively for charitable and educational purposes to encourage and promote educational opportunities to enrolled adult and minor citizens of the Nation and any other federally recognized tribe, to promote and preserve the Cherokee language, culture and history of the Cherokee people, and to make distributions to corporations and individuals or on behalf of community groups. The board of directors and the Executive Director conducts a search for board members who have experience reflective of the mission of the organization. Once the board has approved a potential candidate to the board of directors, the nomination is submitted to the Principal Chief and then Tribal Council for approval. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, CNF is included in the Nation's financial report as a discretely presented component unit. All information included in the Nation's financial statements for CNF is as of and for the fiscal period ended December 31, 2017. Separately issued financial statements for CNF may be obtained from CNF's corporate office.

Cherokee National Historical Society, Inc (CNHS) — CNHS is an educational, cultural and charitable membership nonprofit organization originally incorporated under the laws of the State of Oklahoma in 1963 and is recognized as a 501(c)3 nonprofit organization by the Internal Revenue Service (IRS). The mission of CNHS is to preserve, promote and teach Cherokee history and culture. CNHS operates a museum displaying Native American artifacts and other historical and cultural exhibits, and a historically recreated Cherokee Village. The Tsa-La-Gi complex and the principal offices are located in Park Hill, Oklahoma. CNHS is governed by a Board of Trustees comprised of not less than twelve (12) or more than thirty (30) voting members. The Committee on Board Management is responsible for the comprehensive and objective research for potential Board members and will recommend for nomination those candidates when there are openings on the Board. Nominations are subject to approval of voting members of the Board of Trustees at any regular or special meeting of the governing board. Based on the foregoing criteria and in compliance with the provisions of GASB No. 61, CNHS is included in the Nation's financial report as a discretely presented component unit. All information included in the Nation's financial statements for CNHS is as of and for the fiscal period ended December 31, 2017. Separately issued financial statements for CNHS may be obtained from CNHS's corporate office.

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

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

#### *Blended Component Units*

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

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

organization created as a separate body whose Board of Directors is appointed by the Principal Chief and confirmed by the Tribal Council even though EDTA's governing board is not the same as the Tribal Council. The Nation has the ability to appoint, hire, reassign or dismiss the individuals responsible for management of the programs. EDTA almost exclusively benefits the Nation as its largest activity is the operation of an employee loan program for employees of the Nation and its component units. EDTA is presented as a proprietary fund in the accompanying financial statements.

Cherokee Nation law requires that all corporations, majority owned by the Nation, and incorporated under Cherokee Nation law pay a dividend based on net income. The dividend rate effective December 12, 2017 was increased from 35% to 37% for fiscal year 2018. CNB's minimum dividend requirement is determined at the combined CNB reporting level which has been implemented as the higher of CNB's or any of CNB's Component Units' Net Income. Dividends paid to the Nation and other related party transactions are discussed further in Note 17.

#### *Government-wide Financial Statements*

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

#### *Fund Financial Statements*

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

#### *Governmental Funds*

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

#### *General Fund*

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

#### *Special Revenue Funds*

Special Revenue Funds are used to account for the proceeds of government grants or other specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects of the Nation. The following are the Nation's major Special Revenue Funds:

Public Law 102-477 (PL 102-477) was enacted to facilitate the ability of Indian tribes to integrate the employment, training and related services from diverse Federal sources in order to improve the



effectiveness of those services and reduce unemployment. The law, as amended in 2017, authorizes Tribal governments to consolidate programs from 12 federal agencies that concern employment and training into a single plan which is approved by the Secretary of the Interior. These expenditures are generally presented as either education services or human services expenditures in the accompanying financial statements.

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

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

Housing and Urban Development was established to account for grant funds received from the Department of Housing and Urban Development (HUD) to improve living conditions and renovate homes of Indian residents. During fiscal year 2018, 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 services expenditures in the accompanying financial statements.

#### *Capital Projects Funds*

Capital Projects Funds are used to report resources that are restricted, committed or assigned to expenditures for major capital acquisition and construction separately from ongoing operational activities. The Nation has one major capital projects fund, its Capital Projects Fund.

#### *Debt Service Funds*

Debt Service Funds are used to account for and report resources that are restricted, committed or assigned to expenditures for principal and interest. The Nation has no debt service funds.

#### *Permanent Funds*

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

The Sequoyah Endowment was established in fiscal year 1991 by the Louise K. Green-Matthews Grant in Environmental Science in the amount of \$134,000. It was established to foster and encourage Cherokee students of at least one-quarter blood quantum to engage in obtaining a graduate education in Environmental Science or Natural Sciences. The income from the trust is available to provide one to two grants annually. The amount of net appreciation on the investment of the Sequoyah Endowment is \$81,000 which is the available amount reflected in the fund balance.

The Glenn and Faye Gammon Education Trust was established in fiscal year 2001 by a willed contribution of \$291,000 to provide Cherokee higher education scholarships. In accordance with the will, income from the trust is used to provide tuition and related educational, travel and living expenses for Cherokee students with a blood quantum of one-quarter or more. The amount of net appreciation on the investment of the Gammon Education Trust is \$6,000 which is the available amount reflected in the fund balance.

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

#### *Proprietary Funds*

Proprietary funds are used to account for the Nation's ongoing operations and activities which are similar to those often found in the private sector where the intent is that costs of providing goods and services be recovered through user charges. The proprietary funds maintained by the Nation are enterprise funds and internal service 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 Title VI Loan Fund, Tsa-La-Gi Apartments, CN Sanitary Landfill, and Economic Development Trust Authority (EDTA) activities in these funds. The Nation's only major enterprise fund is as follows:

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

Internal service funds are used to report activities which provide goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. The Nation includes services such as internal leases, fringe pool, and indirect cost pool in these funds. Substantially all of the internal service funds' net position and activities are combined with the governmental activities in the government-wide financial statements. The fringe pool had a net position deficit of \$7,114,000 at September 30, 2018. The Nation continues to evaluate the cost-reimbursement allocation for the fringe pool and continues to reduce the cost of certain fringe benefits. Note disclosures for governmental activities also include related amounts for the internal service funds.

See pages 37 - 44 for descriptions of discretely presented component units.

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

#### *Measurement Focus*

The measurement focus determines the accounting and financial reporting treatment applied to a fund. The governmental and business-type activities within the government-wide Statement of Net Position and Statement of Activities are presented using the economic resources measurement focus. The economic

resources measurement focus meets the accounting objectives of determining net income, net position, and cash flows.

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

#### *Basis of Accounting*

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

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

#### *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, Cash Equivalents and Investments*

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

##### *Investments*

The Nation reports investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

##### *Accounts Receivable*

Amounts represent revenue recognized but not yet received in the current period. Accounts receivable are presented in the Statement of Net Position/Balance Sheet at net realizable value.

##### *Inventories*

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

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

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

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

As a result of the operation of the Title VI Loan program, the HACN had authorized to be 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. As of September 30, 2018, these homes and related infrastructure are awaiting transfer of title to the HACN. Until the official transfer is made, the net book value of the homes, in the amount of \$1,317,000 is classified by the Nation as capital assets, depreciable, net in the government-wide statement of net position.

#### *Other Current Assets*

Amounts represent prepayments for supplies, pharmaceuticals and other expenditures.

#### *Derivative Instruments*

Derivative instruments are complex financial arrangements used to manage specific risks or to make investments and are measured at fair value in the government-wide statement of net position. During the fiscal year 2010, the Nation entered into an interest rate swap agreement (derivative instrument) with a financial institution. During the fiscal year 2016, the Nation entered into a second interest rate swap agreement (derivative instrument) with a financial institution. See Note 10 for additional information concerning these interest rate swap agreements.

#### *Equity Interests in Component Units*

The Nation records its equity interests in component units that exist to enhance the government's ability to provide governmental services in accordance with GASB Statement Number 61. As of September 30, 2018, the Nation held an equity interest in CNB, CNHHS and CHP in the amount of \$881,874,000 and reflected an increase over the prior year of \$65,720,000. Detailed financial statements for the entities can be found on pages 34 and 35.

#### *Capital Assets*

The Nation's accounting policies regarding capital assets such as land improvements, buildings, vehicles and equipment are that these assets, with an initial cost of \$5,000 or more, are to be capitalized and depreciated over their estimated useful lives. Purchased or constructed capital assets are valued at historical cost or estimated historical cost. Donated capital assets, donated works of art and similar items are recorded at acquisition value. Title to certain property and buildings utilized by the Nation, such as Sequoyah High School, the Child Care Development Center, and other land is held by the federal government. Therefore, such assets are not reflected as capital assets in the accompanying financial statements. The Nation has

chosen the straight-line depreciation method for its capital assets based on the estimated useful lives of the capital assets as follows:

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

The Cherokee Nation has the ability to request that land owned by the Nation and its component units be placed into trust status with the United States of America in Trust for the Cherokee Nation (trust status). If land is accepted into trust status, the Nation and its component units have the ability to continue using the property. When land is placed into trust status, the title to the property is transferred to the Federal Government. Under GAAP, this land is removed from the books of the Nation or its component units since the Nation no longer has title to the land. At September 30, 2018, there were various parcels of land owned by the Nation and its component units that the Nation has requested to be placed into trust status. The cost basis of this land will be written off by the Nation when, and if, the property is accepted into trust status.

#### *Intangible Assets*

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

#### *Deferred Outflows/Inflows of Resources*

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future reporting period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Nation has two items that qualify for reporting in this category, the first of which is the accumulated decrease in fair value of hedging derivative. The accumulated decrease in fair value of the hedging derivatives result from the interest rate swap agreement having a negative fair value of \$18,000. More information can be found in Note 10.

There is also an item reported as a deferred outflow of resources in the combining statement of net position – component units of goodwill attributed to prior year CNB business acquisitions. In prior years, this item was reported as an intangible asset component of capital assets and was included within net investment in capital assets of CNB’s net position. In 2018, CNB was required to adopt GASB Statement No. 85, *Omnibus 2017*, which requires that this item now be reported as a deferred outflow of resources. This item will be recognized as an expense over the estimated period that the goodwill is expected to provide a benefit. At September 30, 2018, the estimated remaining life of this item ranges from six to seven years.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future reporting period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The Nation has two items that qualify for reporting in this category which is the accumulated increase in fair value of hedging derivative. The accumulated

increase in fair value of the hedging derivatives result from the interest rate swap agreement having a positive fair value of \$10,402,000. More information can be found in Note 10. Additionally, as reported in the Balance Sheet – Governmental Funds, there are unavailable revenues attributable to notes receivables issued to eligible tribal members.

#### *Fund Financial Statements*

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

#### *Unearned Revenues*

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

#### *Landfill Closure and Postclosure Care Costs*

The Nation, based on the cumulative amount of used capacity, accrues the currently estimated liability for closure and postclosure care costs for the Nation's landfill. 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, 2018 is based upon the assumption that the Landfill will be operated by the Nation to its full designed capacity.

#### *Taxes*

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

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

CNE, a blended component unit of CNB, pays a gaming tax based on certain gross revenues pursuant to provisions of the National Indian Gaming Regulatory Act. Amounts owed under the gaming tax are paid to the National Indian Gaming Commission (NIGC) on a quarterly basis and have been reflected within operating expenses in the Statement of Revenues, Expenses, and Changes in Net Position. Total payments for fiscal year 2018 were approximately \$304,000.

#### *Compensated Absences*

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

On the governmental funds statements, compensated absences are only accrued if the obligation has matured, in other words, the obligation becomes due and payable because of employee resignation, employer buy back or employee retirement. 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 2018, the Cherokee Nation bought back \$1,499,000 of accrued annual leave.

#### *Net Position Classifications*

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

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

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

Unrestricted net position consists of all other assets, deferred outflows of resources, liabilities and deferred inflows of resources that do not meet the definition of "restricted" or "net investment in capital assets."

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

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

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

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

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

Unassigned includes fund balance amounts within the General Fund which have not been classified within the above mentioned categories. The General Fund is the only fund that reports a positive unassigned fund balance amount.

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

### *Revenue Recognition*

The Nation considers revenue to be susceptible to accrual in the governmental funds as it becomes measurable and available, as defined under the modified accrual basis of accounting. The Nation generally defines the availability period for revenue recognition as received within the reporting period or within ninety (90) days after year end. The Nation's major revenue sources that meet this availability criterion are tax revenues and required dividends paid by component units.

### *Program Revenues*

There are three classifications of programmatic revenues for the Nation, program specific grant and contributions revenue (operating and capital) and charges for services. Grant revenues are revenues from federal, state, and private grants. These revenues are recognized when all applicable eligibility requirements are met and are reported as intergovernmental revenues. The primary source of charges for services is earned income in connection with the operation of the Nation's W.W. Hastings Hospital, clinics and other health-related services, which are funded by the Department of Health and Human Services (DHHS) Self Governance Compact. Under the provisions of the Self Governance Agreement with DHHS, the Nation is required to expend this program income for purposes similar to those funded by the basic DHHS Self Governance Compact. There are no specific requirements designating when or in what order program and other self governance funds should be spent. Program income earned from clinic and other health-related services in the form of third party billed revenue during the year ended September 30, 2018 was \$140,892,000.

### *Grants and contributions not restricted to specific programs*

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

### *Operating and Nonoperating Revenues and Expenses*

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

### *Interest Income*

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

### *Interest Income - Self Governance Compacts*

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

### *Interest Income - Grants*

The Nation receives certain amounts of advance funding in connection with four large grants: (1) NAHASDA, funded by HUD, (2) the Sequoyah High School Grant, which is funded by the DOI and the Department of Education, (3) the Department of Transportation, funded through the FHWA for and on the behalf of the DOT and (4) PL-102-477 which is funded by the Department of Labor (DOL) and the

DHHS through the DOI. The applicable legislation and regulations for each grant authorize the earning of interest on advance payments; the use of which is governed by the same.

#### *Internal Activities*

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

#### *Indirect Costs*

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

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

#### *Budgets and Budgetary Accounting Policies*

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

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

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

#### *Management Estimates*

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

## 2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

Below is an explanation of certain differences between the governmental funds balance sheet and the government-wide Statement of Net Position:

The governmental funds balance sheet includes a reconciliation of total fund balances of the governmental funds to the total net position of the governmental activities in the Statement of Net Position. One element of that reconciliation explains that “capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds.” The details of this \$294,976,000 capital assets used in governmental activities are as follows (dollars in thousands):

Capital assets, net	\$ 321,432
Less: Internal service fund capital assets	<u>(26,456)</u>
Capital assets used in governmental activities	<u>\$ 294,976</u>

Another element of the reconciliation is the amount of \$1,473,000 which states “Assets recorded in government-wide financial statements that are not available to pay for current period expenditures, therefore, are unavailable and not recorded in the funds.” The details of this difference are shown below (dollars in thousands):

Notes receivable, net - Self Help Housing	<u>\$ 1,473</u>
---	-----------------

Additionally, an element of that reconciliation explains “Liabilities that are not due and payable in the current period and, therefore, not reported in the funds.” The details of this \$117,804,000 difference are as follows (dollars in thousands):

Long-term debt	<u>\$ 117,804</u>
----------------	-------------------

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

One element of this reconciliation explains “Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.” The details of this \$68,138,000 difference are as follows (dollars in thousands):

Capital expenditures in governmental funds capitalized on government-wide financial statements	\$ 82,424
Depreciation expense	<u>(14,286)</u>
Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 68,138</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 \$2,163,000 difference are as shown on the following page (dollars in thousands):

Additional capital outlay expense and loss on disposal	\$ 2,425
Other	<u>(262)</u>
Net adjustment to decrease changes in fund balance - total governmental funds to arrive at changes in net position of governmental activities	<u>\$ 2,163</u>

### 3. DEPOSITS AND INVESTMENTS

#### *Deposits*

During 2015, the Nation enacted Legislative Act (LA) 14-15 known as the “Financial Security and Stability Act of 2015” amending LA13-85 relating to the deposit and investment of funds. This legislative act defined financial institutions and financial instruments. A financial institution shall be an entity or depository whose primary business and function focuses on dealing with financial services and transactions, such as investments, loans and deposits. A financial institution shall include Federal Deposit Insurance Corporation (FDIC) insured banks, National Credit Union Association (NCUA) insured credit unions and other financial institutions whose activities are controlled or regulated by federal law and/or federal regulations or regulators, including but not limited to the U.S. Securities and Exchange Commission. A financial instrument shall be any negotiable asset or instrument with monetary value. Allowable financial instruments shall include, but not be limited to, Demand Deposits, Certificates of Deposit, Certificates of Deposit Account Registry (CDARS), Insured Cash Sweeps (ICS), Savings Accounts, repurchase/reverse repurchase agreements, U.S. Treasuries and U.S. government securities and those issued by its agencies and instrumentalities, and Institutional Money Market Funds whereby those funds are comprised of a majority of allowable financial instruments as described above.

In December 2017, the Nation enacted LA 35-17 establishing the Cherokee Nation Sovereign Wealth Fund (CNSWF). The two largest funds within the CNSWF are the Education Reserve and the Emergency Reserve. Intended to provide financial security in the event of unforeseen future issues, these reserve funds will be invested for growth purposes under the direction of the Treasurer.

Custodial credit risk is the risk that in the event of a bank failure, the Nation’s deposits may not be returned. No funds under the control of the Nation shall be invested with any financial institution unless the financial institution is insured by the FDIC, NCUA and/or the financial institution’s activities are controlled or regulated by federal law and/or federal regulations or regulators, including but not limited to the U.S. Securities and Exchange Commission. No funds in excess of current FDIC or NCUA insurance maximums shall be invested in a single financial institution unless said funds are collateralized either by and/or invested directly into obligations and/or bonds which contain an investment grade rating from a nationally recognized rating firms, such as Standard and Poor’s, Moody’s or Fitch, or local, state, U.S. Government securities, and those issued by its agencies and instrumentalities, and Nation securities. Collateralized funds shall be secured and pledged to the Nation via joint custody receipts for the full amount of said funds.

Deposits of the primary government are generally insured or covered by pledged collateral. At September 30, 2018, all deposits were insured or collateralized and held by various safe-keeping agents in the Nation’s name. Component units’ deposits of \$2,253,000 at September 30, 2018 were uninsured and uncollateralized.

#### *Investments*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The Nation has no formal policy relating to a specific investment-related risk; however, the

Nation manages interest rate risk by maintaining a balance of highly liquid investments and a “ladder” approach to long-term investments. Funds are invested in blocks, normally of \$1,000,000 or greater, with maturities ranging from one to fifteen years. Any investment with a maturity date of over five years requires consent of the Executive and Finance Committee of the Council, with the exception of investments held by the U.S. Department of Interior’s Office of Trust Fund Management (OTFM). Those investments are made based on the general investment strategy and guidance provided by the Nation.

CNB’s investment policy restricts investment maturities to a period of five years or less. CNB and its component units’ interest rate risk was minimized by the highly liquid nature of its money market investment accounts at September 30, 2018.

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. While the Nation has no formal policy relating to the credit risk of investments the Nation’s investments in U.S. agencies and commercial paper were rated either AAA or AA+ by Standard & Poor’s, AAA by Fitch Ratings and Aaa by Moody’s Investors Service. The Nation’s and CNB’s mutual fund bond investments were rated AAA by Standard & Poor’s and Aaa by Moody’s Investors Service.

Concentration of credit risk is the risk of loss attributed to the magnitude of the Nation’s investment in a single issuer. The Nation’s investment policy does not specifically address concentration of credit risk. Of the total primary government’s investments in U.S. government sponsored entities, \$1,249,000, or 8%, is invested in Fannie Mae (FNMA) securities, \$1,774,000 or 11%, is invested in Federal Home Loan Mortgage Corporation (FHLMC), \$3,530,000, or 22%, is invested in Federal Farm Credit Banks (FFCB), \$3,944,000, or 25%, is invested in Federal Agricultural Mortgage Corporation (FAMCA), and \$5,545,000, or 35%, is invested in Federal Home Loan Bank (FHLB) securities.

#### *Investments Measured at Fair Value*

The Nation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Nation has the following recurring fair value measurements as of September 30, 2018:

- U.S. Treasury securities of \$141,745,000 are valued using quoted market prices (Level 1 inputs).
- Money Market Trust funds of \$103,497,000 are valued using quoted market prices (Level 1 inputs).
- Repurchase agreements of \$78,000 are valued using quoted market prices (Level 1 inputs).
- U.S. Government sponsored entities of \$16,042,000 are valued using quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets where there isn’t sufficient activity, and/or where price quotations vary substantially either over time or among market makers, or in which little information is released publically. (Level 2 inputs).
- Interest rate swap agreements are valued at estimated fair value (Level 2 inputs). See Note 10, specifically under the Fair Value subheadings, for more information.

The component units have the following recurring fair value measurements as of September 30, 2018:

- Money market mutual funds of \$171,555,000 are valued using quoted market prices (Level 1 inputs).
- Mutual funds of \$628,000 are valued using quoted market prices (Level 1 inputs).
- U.S. Government sponsored entities of \$536,000 are valued using quoted market prices (Level 1 inputs).



- Repurchase agreements of \$623,000 are valued using quoted market prices (Level 1 inputs).

Investments, categorized as to interest and credit risk, at September 30, 2018 were as follows (dollars in thousands):

<u>Investment Type</u>	<u>Investment Maturities (in Years)</u>					<u>Credit Rating Moody's/S&amp;P</u>
	<u>Fair Value</u>	<u>Less Than 1</u>	<u>1 - 5</u>	<u>6 - 10</u>	<u>More Than 10</u>	
Primary Government:						
U.S. Treasury Obligations	\$ 141,745	\$ 141,745	\$ -	\$ -	\$ -	
Money market trust funds	103,497	103,497	-	-	-	(1)
Repurchase agreements	78	78	-	-	-	N/R
U.S. Government sponsored entities	16,042	-	72	5,058	10,912	Aaa/AA+
Total Primary Government	<u>\$ 261,362</u>	<u>\$ 245,320</u>	<u>\$ 72</u>	<u>\$ 5,058</u>	<u>\$ 10,912</u>	
Component Units:						
Money market mutual funds	\$ 171,555	\$ 171,555	\$ -	\$ -	\$ -	(2)
Mutual funds	628	-	628	-	-	(2)
U.S. Government sponsored entities	536	-	536	-	-	Aaa/AA+
Repurchase agreement	623	623	-	-	-	AAA
Total Component Units	<u>\$ 173,342</u>	<u>\$ 172,178</u>	<u>\$ 1,164</u>	<u>\$ -</u>	<u>\$ -</u>	

(1) The Money Market Trust Funds are comprised of U.S. Treasuries and Repurchase Agreements collateralized by U.S. Treasury obligations.

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

A reconciliation of the investments for the Primary Government presented above to the investments as presented in the Statement of Net Position follows (in thousands):

Investments as presented on previous page	\$ 261,362
Plus CDARS reported as investments	12,485
Less U.S. Treasury obligations reported as Cash & Cash Equivalents	(141,745)
Less Money market trust fund and Repurchase agreements reported as Cash & Cash Equivalents & Investments	<u>(103,575)</u>
Total investments	<u>\$ 28,527</u>

A reconciliation of the investments for the Component Units presented above to the investments as presented in the Statement of Net Position on the following page (dollars in thousands):

Investments as presented on previous page	\$ 173,342
Plus Certificates of Deposit reported as investments	3,924
Less Money market mutual funds and mutual funds reported as Cash Equivalents	<u>(171,420)</u>
Total investments	<u>\$ 5,846</u>

*Restricted Cash, Cash Equivalents and Investments*

Restricted cash, cash equivalents and investments and reserved cash at September 30, 2018 as shown below (dollars in thousands):

Primary Government

Tenant security deposits held in trust, replacement reserves and mortgage escrow deposits for Tsa-La-Gi	\$ 26
Capital replacement, closure and postclosure care costs of the Landfill Closure fund	3,274
Scholarship funds and youth development projects	512
District Court escrow account	<u>11</u>
Total Primary Government restricted cash, cash equivalents and investments	<u>\$ 3,823</u>

Component Units

Escrow relating to the Title VI loan with a bank (see Note 8)	\$ 535
HACN's lease-to-own homeownership program monthly equity payments	3,082
Pari-mutuel horse racing activities funds	6,062
CNB cash related to federal grants	102
CNF endowment funds	112
CNHS endowment for capital improvements	<u>222</u>
Total Component Unit restricted cash, cash equivalents and investments	<u>\$ 10,115</u>

#### 4. RECEIVABLES

Receivables for primary government at September 30, 2018 consisted of the following (dollars in thousands):

	<b>Contracts Receivable</b>	<b>Accounts Receivable</b>	<b>Interest Receivable</b>	<b>Total</b>	<b>Notes Receivable</b>
Governmental Receivables:					
General					
Motor fuel taxes	\$ -	\$ 2,555	\$ -	\$ 2,555	\$ -
Other taxes	-	148	-	148	-
Other accounts receivable	-	1,484	-	1,484	-
Special Revenue Funds	11,962	17,104	140	29,206	1,473
Other - Internal Service Funds	-	1,096	-	1,096	-
	<u>-</u>	<u>1,096</u>	<u>-</u>	<u>1,096</u>	<u>-</u>
Receivables of Governmental Activities	<u>\$ 11,962</u>	<u>\$ 22,387</u>	<u>\$ 140</u>	<u>\$ 34,489</u>	<u>\$ 1,473</u>
Business-type Activities:					
CN Sanitary Landfill	\$ -	\$ 352	\$ -	\$ 352	\$ -
EDTA	-	2	-	2	-
Notes receivable, current	-	-	-	-	3,484
Long-term notes receivable	-	-	-	-	7,584
	<u>-</u>	<u>354</u>	<u>-</u>	<u>354</u>	<u>11,068</u>
Less: Allowance for uncollectables	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(285)</u>
Receivables of Business-type Activities	<u>\$ -</u>	<u>\$ 354</u>	<u>\$ -</u>	<u>\$ 354</u>	<u>\$ 10,783</u>

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

Receivables for component units at September 30, 2018 shown below consisted of the following (dollars in thousands):

	<b>Component Units</b>							<b>Total</b>
	<b>CNB</b>	<b>HACN</b>	<b>CNCCA</b>	<b>CNHHS</b>	<b>CHP</b>	<b>CNF</b>	<b>CNHS</b>	
Receivables:								
Accounts and Other	\$ 102,007	\$ 843	\$ -	\$ 482	\$ 1,397	\$ -	\$ 36	\$ 104,765
Interest	-	550	-	-	-	-	-	550
Notes	-	14,429	-	-	-	-	-	14,429
	<u>102,007</u>	<u>15,822</u>	<u>-</u>	<u>482</u>	<u>1,397</u>	<u>-</u>	<u>36</u>	<u>119,744</u>
Less: Allowance for uncollectables	<u>(140)</u>	<u>-</u>	<u>-</u>	<u>(73)</u>	<u>(91)</u>	<u>-</u>	<u>-</u>	<u>(304)</u>
Receivables, net	<u>\$ 101,867</u>	<u>\$ 15,822</u>	<u>\$ -</u>	<u>\$ 409</u>	<u>\$ 1,306</u>	<u>\$ -</u>	<u>\$ 36</u>	<u>\$ 119,440</u>

*Mortgages Receivable – Title VI*

HACN has mortgages receivable at September 30, 2018 totaling \$13,761,000 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, 2018 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, 2018, the current and noncurrent portions of these mortgages receivable were \$514,000 and \$13,247,000, respectively. The Nation has a related note receivable from HACN recorded in its Business-type Activities reported as notes receivable and long-term notes receivable in the statement of net position.

**5. INTERFUND TRANSFERS AND BALANCES**

Interfund transfers for the year ended September 30, 2018 consisted of the following (dollars in thousands):

Category and Fund	Transfers from Other Funds	Transfers to Other Funds
Governmental Activities:		
Governmental Funds:		
General	\$ 1,456	\$ (4,014)
Department of Transportation	-	(647)
Self Governance DHHS	525	(8,628)
Housing & Urban Development	132	(96)
Capital Projects Fund	11,000	(229)
Nonmajor Governmental Funds	2,970	(4,136)
Total Governmental Funds	<u>16,083</u>	<u>(17,750)</u>
Internal Service Funds	<u>4</u>	<u>-</u>
Total Governmental Activities	<u>16,087</u>	<u>(17,750)</u>
Business-type Activities:		
Proprietary Funds:		
Nonmajor Enterprise Funds	<u>1,663</u>	<u>-</u>
Total Proprietary Funds	<u>1,663</u>	<u>-</u>
Total Business-type Activities	<u>1,663</u>	<u>-</u>
Total Primary Government	<u>\$ 17,750</u>	<u>\$ (17,750)</u>

Reconciliation to government-wide Statement of Activities:

Governmental Activities:		
Transfers In	\$ 16,087	
Transfers Out	<u>(17,750)</u>	
Net Transfer Governmental Activities		<u>\$ (1,663)</u>
Business-type Activities:		
Transfers In	<u>\$ 1,663</u>	
Net Transfer Business-type Activities		<u>\$ 1,663</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.

Interfund balances at September 30, 2018 consisted of the following (dollars in thousands):

Category and Fund	Due from Other Funds	Due to Other Funds
Governmental Activities:		
Governmental Funds:		
General	\$ 28,170	\$ 6,015
PL 102-477	-	1,617
Department of Transportation	-	1,859
Self Governance DHHS	-	27,629
Housing & Urban Development	2,618	-
Capital Projects Fund	12,397	9,015
Nonmajor Governmental Funds	28	11,349
Total Governmental Funds	43,213	57,484
Internal Service Funds	17,347	2,130
Total Governmental Activities	60,560	59,614
Business-type Activities:		
Proprietary Funds:		
Title VI Loan Fund	-	470
Nonmajor Enterprise Funds	-	476
Total Proprietary Funds	-	946
Total Business-type Activities	-	946
Total Primary Government	\$ 60,560	\$ 60,560
Reconciliation to government-wide Statement of Net Position:		
Governmental Activities:		
Due from Other Funds	\$ 60,560	
Due to Other Funds	(59,614)	
Net Internal Balances		\$ 946
Business-type Activities:		
Due to Other Funds	\$ (946)	
Net Internal Balances		\$ (946)

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

## 6. INVENTORIES

The Nation's inventories were comprised of the following at September 30, 2018 (dollars in thousands):

	<b>Governmental Funds</b>	<b>Internal Service Funds</b>	<b>Component Units</b>
Finished goods and raw materials	\$ -	\$ -	\$ 13,968
Food for distribution	1,467	-	-
Pharmaceuticals and supplies	<u>4,000</u>	<u>252</u>	<u>539</u>
	5,467	252	14,507
Less inventory reserves	<u>-</u>	<u>-</u>	<u>(2,202)</u>
Total inventories	<u>\$ 5,467</u>	<u>\$ 252</u>	<u>\$ 12,305</u>

The majority of the component unit inventory at September 30, 2018 relates to the Engineering and Manufacturing Sector of CNB which provides electrical, electro-mechanical, interconnect solutions, distributing, kitting and manufacturing cable and wire harness assemblies. These businesses have manufactured numerous projects that required expertise in medium, to complex integration in ground support, test, and flight hardware and armament systems.



## 7. CAPITAL ASSETS

A summary of capital assets activity by major class, for the year ended September 30, 2018 follows (dollars in thousands):

### Governmental Activities

	<u>Balance,</u> <u>September 30,</u> <u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance,</u> <u>September 30,</u> <u>2018</u>
<b>Activity by Major Class</b>				
Capital assets, not being depreciated:				
Land	\$ 19,927	\$ 849	\$ -	\$ 20,776
Construction in process	28,115	77,562	-	105,677
Total capital assets, not being depreciated	<u>48,042</u>	<u>78,411</u>	<u>-</u>	<u>126,453</u>
Capital assets being depreciated:				
Buildings and improvements	228,391	1,105	(108)	229,388
Equipment	85,335	5,460	(3,487)	87,308
Land improvements	1,255	184	-	1,439
Total capital assets being depreciated	<u>314,981</u>	<u>6,749</u>	<u>(3,595)</u>	<u>318,135</u>
Less accumulated depreciation for:				
Buildings and improvements	(44,355)	(6,482)	62	(50,775)
Equipment	(67,531)	(7,731)	3,341	(71,921)
Land improvements	(387)	(73)	-	(460)
Total accumulated depreciation	<u>(112,273)</u>	<u>(14,286)</u>	<u>3,403</u>	<u>(123,156)</u>
Total capital assets being depreciated, net	<u>202,708</u>	<u>(7,537)</u>	<u>(192)</u>	<u>194,979</u>
Activity by major class capital assets, net	<u>\$ 250,750</u>	<u>\$ 70,874</u>	<u>\$ (192)</u>	<u>\$ 321,432</u>

Depreciation expense was charged to functions as follows:

Governmental activities:

Tribal Government	\$ 3,582
Health Services	8,986
Education Services	468
Human Services	369
Community Services	<u>881</u>
Total Governmental activities depreciation expense	<u>\$ 14,286</u>

**Business-type Activities**

	<b>Balance, September 30, <u>2017</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b>Balance, September 30, <u>2018</u></b>
Capital assets, not being depreciated:				
Land	\$ 236	\$ -	\$ -	\$ 236
Capital assets being depreciated:				
Buildings and improvements	1,888	17	-	1,905
Equipment	1,764	23	-	1,787
Total capital assets being depreciated	<u>3,652</u>	<u>40</u>	<u>-</u>	<u>3,692</u>
Less accumulated depreciation for:				
Buildings and improvements	(1,679)	(49)	-	(1,728)
Equipment	(503)	(466)	-	(969)
Total accumulated depreciation	<u>(2,182)</u>	<u>(515)</u>	<u>-</u>	<u>(2,697)</u>
Total capital assets being depreciated, net	<u>1,470</u>	<u>(475)</u>	<u>-</u>	<u>995</u>
Business-type activities capital assets, net	<u>\$ 1,706</u>	<u>\$ (475)</u>	<u>\$ -</u>	<u>\$ 1,231</u>

Depreciation expense of \$52,000 was recognized by Tsa-La-Gi Apartments while depreciation of \$463,000 was recognized by CN Sanitary Landfill for the year ended September 30, 2018.

**Component Unit Activities**

	<b>As Restated Balance, September 30, <u>2017</u></b>	<b><u>Additions</u></b>	<b><u>Reductions</u></b>	<b>Balance, September 30, <u>2018</u></b>
<b>CNB and HACN:</b>				
Capital assets, not being depreciated:				
Land	\$ 54,725	\$ 10	\$ (750)	\$ 53,985
Construction in process	10,775	56,963	(23,334)	44,404
Artwork	3,598	62	-	3,660
Total capital assets, not being depreciated	<u>69,098</u>	<u>57,035</u>	<u>(24,084)</u>	<u>102,049</u>
Capital assets being depreciated:				
Buildings, improvements and other	791,484	9,854	(7,534)	793,804
Machinery and equipment	240,836	19,003	(15,981)	243,858
Total capital assets being depreciated	<u>1,032,320</u>	<u>28,857</u>	<u>(23,515)</u>	<u>1,037,662</u>
Less accumulated depreciation for:				
Buildings, improvements and other	(226,801)	(31,700)	6,893	(251,608)
Machinery and equipment	(168,421)	(25,029)	15,420	(178,030)
Total accumulated depreciation	<u>(395,222)</u>	<u>(56,729)</u>	<u>22,313</u>	<u>(429,638)</u>
Total capital assets being depreciated, net	<u>637,098</u>	<u>(27,872)</u>	<u>(1,202)</u>	<u>608,024</u>
CNB and HACN activities - capital assets, net	<u>706,196</u>	<u>29,163</u>	<u>(25,286)</u>	<u>710,073</u>
<b>Other Component Units:</b>				
CNHHS, CNCCA, CHP, CNF and CNHS capital assets, net	6,228	-	(41)	6,187
Total of the Component Unit activities - capital assets, net	<u>\$ 712,424</u>	<u>\$ 29,163</u>	<u>\$ (25,327)</u>	<u>\$ 716,260</u>

The beginning balances in the category of buildings, improvements and other in the table above have been adjusted to reduce intangible assets (goodwill) previously included within capital assets, which are now required to be reported as deferred outflows of resources as a result of CNB's adoption of GASB Statement No. 85, as discussed in Note 1. The adjustments decreased other capital assets and related amortization by \$30,661,000 as of September 30, 2017, as reflected in the restated balance column presented above.

## 8. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2018 was as follows (dollars in thousands):

<u>Governmental Activities</u>	<u>Balance,</u> <u>September 30,</u>			<u>Balance,</u> <u>September 30,</u>		
	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
<b>Notes Payable</b>						
Note payable to Bank of Oklahoma (BOK) in fixed principal payments. See (1) below.	\$ 12,533	\$ -	\$ (1,600)	\$ 10,933	\$ 1,600	\$ 9,333
Note payable to construct Tahlequah Outpatient Health Facility. See (2) below.	<u>35,171</u>	<u>71,700</u>	<u>-</u>	<u>106,871</u>	<u>1,889</u>	<u>104,982</u>
Total long-term debt	<u>\$ 47,704</u>	<u>\$ 71,700</u>	<u>\$ (1,600)</u>	<u>\$ 117,804</u>	<u>\$ 3,489</u>	<u>\$ 114,315</u>

- (1) This note, along with additional program income transfers from the SG DHHS Fund, provided the funding for the construction of a new clinic in Vinita. The revenues and expenditures relating to the construction of the new Vinita Clinic were accounted for in the Capital Projects Fund. This note is a 15-year note with final payment due in July 2025 with fixed monthly principal payments of \$133,000 and varying monthly interest payments, secured by cash or investments at Bank of Oklahoma. The variable rate is based on 75% of 30 day LIBOR plus 95 basis points if the note is secured by certificates of deposit held by the bank or 115 basis points if the note is secured by U.S. Treasuries. The note had a balance of \$10,933,000 at September 30, 2018. The Nation entered into a swap agreement with Bank of Oklahoma to synthetically fix the interest rate on the \$24 million loan. The swap agreement synthetically fixes the rate at 3.16%. The agreement covers the entire 15-year term. There are potential gains and losses associated with the swap agreement should Cherokee Nation choose an early payoff on the loan. See Note 10 for additional details. Collateral previously associated with this loan was released as part of the loan agreement detailed in (2).

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

- (2) This note provides the funding for the construction of a new outpatient health facility in Tahlequah, Oklahoma. The principal amount of the note is \$170,000,000 for the purposes of financing a portion of the costs of the construction of the project, financing a portion of the costs of furniture, fixtures and equipment for the project, optionally redeeming the Bonds, and paying transaction costs. This note has an interest only period until the first principal payment on the loan is due beginning on August 31, 2019,

with each scheduled installment being an amount equal to 1/180<sup>th</sup> of the outstanding principal balance of the loan as of the close of business on August 30, 2019. Payment of each scheduled monthly principal installment shall be accompanied by payment of the interest due. Interest on the note shall be due and payable in arrears on the last day of each calendar month, commencing September 30, 2016 and at maturity. As of September 30, 2018 the Nation has drawn down \$106,871,000 of the construction loan funds. The Nation entered into a swap agreement with Bank of Oklahoma to synthetically fix the interest rate on the \$170 million loan. The swap agreement synthetically fixes the rate at 2.7%. The agreement covers the entire 15-year term. There are potential gains and losses associated with the swap agreement should Cherokee Nation choose an early payoff on the loan. The note is a general obligation of the Nation. See Note 10 for additional details.

The construction of the outpatient health facility in Tahlequah, Oklahoma, owned by the Nation, is being constructed as part of a Joint Venture Construction Program Agreement (JCVP) between the Nation and the Indian Health Service (IHS), Department of Health and Human Services dated February 25, 2016. The Nation will plan, design, construct, equip, lease and operate the outpatient health facility according to IHS specifications. The IHS will provide funds to staff 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 outpatient health facility. Upon completion of the outpatient health facility, 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 outpatient health facility or the land it is located on but rather, the IHS is merely providing the funding for staffing the outpatient health facility. 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 outpatient health facility and all employees of the outpatient health facility will be employees of the Nation. The IHS will not directly provide services at the outpatient health facility. IHS funding for the operation of the outpatient health facility will be provided to the Nation through the Funding Agreements.

The balance of long-term debt, including capital leases, for business-type activities at September 30, 2018 was \$1,983,000. The balance of long-term debt for Component Units at September 30, 2018 was \$57,808,000. Long-term debt, including capital leases, in the business-type activities and component units at September 30, 2018 consisted of the following shown on the following page (dollars in thousands):

<u>Business-type Activities</u>	Balance, September 30,			Balance, September 30,		
	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
<b>Title VI Loan Fund</b>						
Note payable to bank in fixed principal payments. See (3) below.	\$ 2,083	\$ -	\$ (1,618)	\$ 465	\$ 465	\$ -
<b>Economic Development Trust Authority</b>						
Notes payable to the Department of Agriculture in variable annual installments including interest of 1% annual, with final payment due August 2034.	998	-	(64)	934	65	869
<b>CN Sanitary Landfill</b>						
Capital lease to Welch State Bank with fixed payments. Interest rate 1.99%, with final payment due April 2021.	<u>802</u>	<u>-</u>	<u>(218)</u>	<u>584</u>	<u>222</u>	<u>362</u>
Total long-term debt	<u>\$ 3,883</u>	<u>\$ -</u>	<u>\$ (1,900)</u>	<u>\$ 1,983</u>	<u>\$ 752</u>	<u>\$ 1,231</u>

- (3) In July 2002, the Nation entered into a \$50,000,000 loan agreement, 95% guaranteed by United States Department of Housing and Urban Development. The loan proceeds were divided into two separate “pools” which carry different interest rates over the life of the loan. Pool A was paid off in July 2013. Pool B, with a balance at September 30, 2018 of \$465,000 carries a variable interest rate, reset monthly, and derived from the 30 day LIBOR + 70 basis points, which at September 30, 2018 was 2.78%. Pool B requires monthly principal payments of \$100,000 through February 1, 2022, plus interest. The loan proceeds were transferred to the HACN under a loan agreement between the Nation and the HACN to provide funding for construction or acquisition of single-family homes within the Nation’s fourteen county reservation. 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 \$265,000. 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, 2018 was \$465,000, of which, \$465,000 is included in notes receivable current in the government-wide Statement of Net Position as well as at the Proprietary Fund level.



<u>Component Units</u>	<u>Balance,</u>			<u>Balance,</u>		
	<u>September 30,</u>	<u>Additions</u>	<u>Reductions</u>	<u>September 30,</u>	<u>Current</u>	<u>Long-Term</u>
	<u>2017</u>			<u>2018</u>	<u>Portion</u>	<u>Portion</u>
<b>Housing Authority of the Cherokee Nation (HACN)</b>						
Note payable to Cherokee Nation in fixed monthly principal payments of \$100 with interest calculated on the outstanding balance each month. See (4) below	\$ 2,083	\$ -	\$ (1,618)	\$ 465	\$ 465	\$ -
Note payable to bank in fixed monthly payments of \$2 including principal and interest. Interest calculated at 6.75% annual with final final payment due February 2021. See (5) below	50	-	(14)	36	14	22
Assumable Mortgage Program (*AMP*) - loans for use in the purchase of homes provided to program participants. Interest rates vary from 4% to 7.125% and are payable in monthly installments over thirty (30) years. See (6) below	48,583	8,362	(1,074)	55,871	1,040	54,831
<b>Cherokee Nation Comprehensive Care Agency (CNCCA)</b>						
Note payable to CNB to finance building construction and secured by same at 6.5%, principal and interest payments of \$9 due monthly beginning May 2008 and ending April 2018, at which time any remaining principal is due and payable.	1,191	-	(1,191)	-	-	-
Notes payables to finance vehicles secured by the vehicle at 3.5% principal and interest of \$3 due monthly from March 2016 and ending February 2021.	105	-	(105)	-	-	-
<b>Cherokee Health Partners, LLC (CHP)</b>						
2.99% note payable, due in monthly installments of \$10 including interest, through February 2022, secured by equipment.	523	-	(204)	319	100	219
3.5% note payable, due in monthly installments of \$18 including interest, through December 2019, secured by equipment.	501	-	(101)	400	216	184
<b>Cherokee Nation Home Health Service (CNHHS)</b>						
Bank note payable dated June 7, 2006 in the original amount of \$371 has monthly payments of \$3, including interest at 5.25% and matures June 7, 2017, secured by a building and land. See (7) below	214	-	(18)	196	21	175
Capital lease for buildings and equipment at an interest rate of 2.05%.	119	102	(59)	162	63	99
Line of credit	304	-	(26)	278	29	249
<b>Cherokee National Historical Society, Inc (CNHS)</b>						
Bank note payable dated August 12, 2013 in the original amount of \$130 and was due November 12, 2015. Interest is variable equal to BOK Financial Corp Index.	85	-	(4)	81	5	76
Total long-term debt	<u>\$ 53,758</u>	<u>\$ 8,464</u>	<u>\$ (4,414)</u>	<u>\$ 57,808</u>	<u>\$ 1,953</u>	<u>\$ 55,855</u>

(4) HACN, during fiscal year 2018, 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 was divided into two separate “pools” which carry different interest rates over the life of the loan. Pool A was paid off as of September 30, 2013. Pool B, whose balance at September 30, 2018 was \$465,000 carries a variable interest rate reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2018 was 2.98%. Pool B principal payments of \$100,000 began March of 2005 and are scheduled through June 1, 2022, plus interest. During fiscal year 2018, HACN made total principal payments on Pool B of \$1,618,000.

As collateral for the loan, the Nation has pledged all current and future grants, for which the borrower becomes eligible under NAHASDA, as well as income directly generated from the use of loan proceeds, program income derived from the sale or lease of real property acquired, rehabilitated or constructed

with loan proceeds, and the securities deposited to the pledge account. Any program income generated from the above is required to be deposited into a “Loan Repayment Account” to serve as an additional source for payment of principal and interest related to the Title VI loan.

- (5) During fiscal year 2006, HACN borrowed \$152,000 for its costs related to the Claremore QuadPlex project. The loan is repaid in monthly payments of \$1,300 including principal and interest and began on February 1, 2006. The loan carries an interest rate of 6.75%. The final payment will be made on February 1, 2021. At September 30, 2018 the loan balance was \$36,000.
- (6) During fiscal year 2007, HACN began its Assumable Mortgage Program. In fiscal year 2018, HACN took out \$8,362,000 in new loans for use in the purchase or construction of 749 total homes provided to program participants. Interest rates on the loans vary from 4% to 7.125% and are payable in monthly installments over thirty years. At September 30, 2018, the loan balance was \$55,871,000.
- (7) CNHHS renewed a promissory note and security agreement with a bank in June 2006 totaling \$371,000 with monthly payments of \$3,000, including interest at 7%, and an original maturity date of June 7, 2009. During 2009, the note agreement was extended an additional 35 monthly payments of \$3,000, including interest at 7.0% and a balloon payment of all outstanding principal and interest due June 7, 2012. During 2012, the note agreement was extended an additional 59 monthly payments of \$3,000, including interest at 5.25% and a balloon payment of all outstanding principal and interest due June 7, 2017. During 2017, the note agreement was extended an additional 59 monthly payments of \$3,000 including interest at 5.50% and a balloon payment of all outstanding principal and interest due June 7, 2022. The purpose of the note was to finance the construction of a new office building, completed in March 2006. The note payable is secured by a building, land and certain bank accounts. Amount outstanding at September 30, 2018 was \$196,000.

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

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

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Governmental Activities:			
2019	3,489	4,455	7,944
2020	12,933	4,134	17,067
2021	12,933	3,645	16,578
2022	12,933	3,155	16,088
2023	72,583	1,933	74,516
2024 through 2028	<u>2,933</u>	<u>89</u>	<u>3,022</u>
Total	<u>\$ 117,804</u>	<u>\$ 17,411</u>	<u>\$ 135,215</u>

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Business-type Activities:			
2019	752	127	879
2020	292	14	306
2021	200	9	209
2022	66	8	74
2023	67	7	74
2024 through 2028	347	24	371
2029 through 2033	228	7	235
2034 through 2038	<u>31</u>	<u>1</u>	<u>32</u>
Total	<u>\$ 1,983</u>	<u>\$ 197</u>	<u>\$ 2,180</u>

Maturities of long-term debt for the Component Units are as follows (dollars in thousands):

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Component Units:			
2019	1,953	2,401	4,354
2020	1,426	2,346	3,772
2021	1,598	2,287	3,885
2022	1,404	2,232	3,636
2023	1,239	10,196	11,435
2024 through 2028	7,081	10,207	17,288
2029 through 2033	8,828	8,466	17,294
2034 through 2038	10,983	6,290	17,273
2039 through 2043	13,495	3,610	17,105
2044 through 2048	<u>9,801</u>	<u>724</u>	<u>10,525</u>
Total	<u>\$ 57,808</u>	<u>\$ 48,759</u>	<u>\$ 106,567</u>

## 9. COMPENSATED ABSENCES

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

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

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

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

<b>Fiscal Year</b>	<b>Balance at Beginning of Year</b>	<b>Leave Earned</b>	<b>Leave Used</b>	<b>Balance at End of Year</b>
2016	\$7,366	\$12,248	(\$12,238)	\$7,376
2017	\$7,376	\$12,276	(\$11,888)	\$7,764
2018	\$7,764	\$12,767	(\$12,238)	\$8,293

The claims above are expected to be paid from currently available financial resources and are included in the accompanying Proprietary Funds Statement of Net Position in the Governmental Activities – Internal Service Funds.

**10. INTEREST RATE SWAP AGREEMENTS****VINITA CLINIC LOAN**

In connection with the issuance of a \$24,000,000 note payable (see (1) in footnote 8 on page 67), the Nation also entered into an interest rate swap agreement with Bank of Oklahoma. Details of the agreement are as follows:

***Objective of the Interest Rate Swap***

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

***Terms***

The agreement was entered into on July 30, 2010, is scheduled to end on July 31, 2025 and required no initial net cash receipt or payment by the Nation. The agreement provides for the Nation to receive interest from the counterparty at 75% of the London Interbank Offering Rate (LIBOR) and to pay interest to the counterparty at a fixed rate of 2.21% on a notional amount of \$10,933,000 at September 30, 2018. The notional amount of the swap and the principal amount of the associated debt were equal at inception of the swap, and the notional amount declines by a corresponding amount each time a principal payment becomes due on the associated debt. Under the agreement, the Nation pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

### *Fair Value*

As of September 30, 2018, the agreement had a negative fair value of \$18,000 calculated using the par-value method, i.e., the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable note. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed component from the established market value of the variable component. The fair value of the swap of \$18,000 is shown as a derivative investment – rate swap liability on the Statement of Net Position, with the offset recorded as a deferred outflow in the Nation’s government-wide Statement of Net Position as the hedging relationship is effective.

### *Credit Risk*

The swap’s fair value represented the Nation’s credit exposure to the counterparty as of September 30, 2018. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Nation has a maximum possible loss equivalent to the swap’s fair value at that date. As of September 30, 2018, the Nation was not exposed to credit risk because the swap had a negative fair value. The swap counterparty was rated A by Fitch Ratings, BBB+ by Standard & Poor’s and A3 by Moody’s Investors Service as of September 30, 2018. The Nation does not currently have a policy of requiring the counterparty to post collateral in the event the Nation becomes exposed to credit risk. The Nation does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place.

### *Termination Risk*

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

### *Swap Payments and Associated Debt*

Using rates as of September 30, 2018, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are set forth in the table below. As rates vary, variable-rate interest payments and net swap payments will vary.

	<b>Variable-Rate Note</b>		<b>Interest Rate</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Swap, Net</b>	<b>Total</b>
2019	\$1,600,000	\$273,000	\$53,000	\$1,926,000
2020	1,600,000	231,000	45,000	1,876,000
2021	1,600,000	188,000	36,000	1,824,000
2022	1,600,000	145,000	28,000	1,773,000
2023	1,600,000	102,000	20,000	1,722,000
2024 – 2025	2,933,000	76,000	15,000	3,024,000
	<u>\$10,933,000</u>	<u>\$1,015,000</u>	<u>\$197,000</u>	<u>\$12,145,000</u>

### TAHLEQUAH OUTPATIENT HEALTH FACILITY

In connection with the issuance of a \$170,000,000 note payable (see (2) in footnote 8 on page 67 - 68), the Nation also entered into an interest rate swap agreement with Bank of Oklahoma. Details of the agreement are as follows:

#### *Objective of the Interest Rate Swap*

The Nation's asset/liability strategy is to have a mixture of fixed- and variable-rate debt to take advantage of market fluctuations. As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations and to lower its borrowing costs when compared against fixed-rate debt at the time of issuance, the Nation entered into an interest rate swap agreement for its tax-exempt long-term note payable with a financial institution. The intention of the swap is to effectively change the Nation's variable interest rate portion on this note to a synthetic fixed rate of 1.20%.

#### *Terms*

The agreement was entered into on September 12, 2016, is scheduled to end on August 26, 2031 and required no initial net cash receipt or payment by the Nation. The agreement provides for the Nation to receive interest from the counterparty at 70% of the London Interbank Offering Rate (LIBOR) and to pay interest to the counterparty at a fixed rate of 1.20% on a notional amount of \$99,400,000 at September 30, 2018. The notional amount of the swap and the principal amount of the associated debt were equal at inception of the swap. The notional amount determined each month is based on the projected draws that will be made on the debt for construction related purposes and will increase by an amount up to the total loan agreement amount of \$170,000,000 by September 3, 2019. Monthly payments are due on the last day of each month. Principal payments of the debt will begin once the construction phase of the project has completed and the notional amount declines each month by a corresponding amount of the debt balance each time a principal payment becomes due. Under the agreement, the Nation pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

#### *Fair Value*

As of September 30, 2018, the agreement had a positive fair value of \$10,402,000 calculated using the par-value method, *i.e.*, the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable note. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed component from the established market value of the variable component. The fair value of the agreement is recognized as derivative instrument – rate swaps asset in the Nation's government-wide statement of net position. As the swap is an effective hedging instrument, the offsetting balance is reflected as a deferred inflow on the Nation's government-wide statement of net position. The positive fair value of the swap of \$10,402,000 for the year ended September 30, 2018 is shown as an adjustment to the carrying amount of the related deferred inflow on the statement of net position.

#### *Credit Risk*

The swap's fair value represented the Nation's credit exposure to the counterparty as of September 30, 2018. Should the counterparty to this transaction fail to perform according to the terms of the swap agreement, the Nation has a maximum possible loss equivalent to the swap's fair value at that date. As of September 30, 2018, the Nation was exposed to credit risk because the swap had a positive fair value. The swap counterparty was rated A by Fitch Ratings, BBB+ by Standard & Poor's and A3 by Moody's Investors Service as of September 30, 2018. The Nation does not currently have a policy of requiring the counterparty to post collateral in the event the Nation becomes exposed to credit risk. The Nation does not currently have a policy requiring a master netting agreement with the counterparty and does not currently have such an agreement in place.

### *Basis Risk*

The swap exposes the Nation to basis risk should the relationship between LIBOR and the prime rate set by the Nation's lender change in a manner adverse to the Nation. If an adverse change occurs in the relationship between these rates, the expected cost savings may not be realized.

### *Termination Risk*

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

### *Swap Payments and Associated Debt*

Using rates as of September 30, 2018, debt service requirements of the variable-rate debt and net swap payments, assuming current interest rates remain the same, for their term are set forth in the table on the following page. As rates vary, variable-rate interest payments and net swap payments will vary.

	<b>Variable-Rate Note</b>		<b>Interest</b>	
	<b>Principal</b>	<b>Interest</b>	<b>Rate</b>	<b>Total</b>
			<b>Swap, Net</b>	
2019	\$945,000	\$3,931,000	\$488,000	\$5,364,000
2020	11,333,000	5,106,000	633,000	17,072,000
2021	11,333,000	4,738,000	588,000	16,659,000
2022	11,333,000	4,384,000	544,000	16,261,000
2023	11,333,000	4,050,000	502,000	15,885,000
2024 – 2031	<u>89,723,000</u>	<u>19,380,000</u>	<u>2,404,000</u>	<u>111,507,000</u>
	<u>\$136,000,000</u>	<u>\$41,589,000</u>	<u>\$5,159,000</u>	<u>\$182,748,000</u>

Additionally, as of September 30, 2018 the Nation has drawn an additional \$71,700,000 for a cumulative total of \$106,871,000 on the debt facility. The schedule above represents the projected draws and future principal payments required based on current assumptions for the financing needs during the construction phase of the new outpatient health facility in Tahlequah. The Nation currently has hedged 80% of the total \$170 million of authorized debt (See Note 8).

## **11. LINES OF CREDIT**

The Nation has a \$5,000,000 line of credit with Bank of America that has no outstanding borrowings as of September 30, 2018. The current line of credit with Bank of America carries a floating rate equal to the LIBOR Daily Floating Rate plus 150 basis points. The cost associated with maintaining this Line of Credit agreement for fiscal year 2018 was \$13,000. The agreement was extended during fiscal year 2018 and is set to expire on September 30, 2020, unless extended. Pursuant to LA 28-04 which amended LA 05-02, The Fiscal Policy and Responsibility Act, authorized this line of credit to be utilized in satisfying the permanent Cash Reserve required by the Act, and to permanently provide for operating cash needs of the Nation.

On July 19, 2013, CNB entered into a \$100,000,000 revolving credit agreement. On November 6, 2017, CNB entered into an amendment to the revolving credit agreement, increasing the line of credit to \$150,000,000. The other terms of the agreement remain substantially unchanged. CNE and its blended



component units guarantee the credit facility. In addition, the agreement is collateralized by CNE's cash flows and substantially all of CNE's assets. The credit agreement includes a \$20,000,000 letter of credit arrangement. The agreement bears interest at the one-month London Interbank Offered Rate (LIBOR) plus 1.20%. The credit agreement has quarterly unused commitment fees ranging from 0.25% to 0.30%, determined by the outstanding loan balance. CNB had no outstanding borrowings at September 30, 2018. CNB had letters of credit outstanding totaling \$29,000 at September 30, 2018. CNB's availability under this revolving credit facility was \$149,971,000 at September 30, 2018.

CNHHS obtained a line of credit on March 25, 2011. The initial draw was used to pay off all the outstanding lines of credit at that date. This line of credit bears interest payable monthly at a fixed rate of 4.50% and is secured by the full faith and credit of the Nation under a limited waiver of sovereign immunity. This line of credit was renewed in March 2016 through March 2021. The balance of the line of credit for the year ended September 30, 2018 was \$278,000.

## **12. TRUST LIABILITIES**

The HACN has several lease-to-own homebuyer programs wherein the tenant/homebuyer may eventually purchase the house in accordance with contractual agreements. These transactions are similar to a financing lease, however are not accounted for as such as the amount and ability to collect the minimum lease payments is not predictable. Until the time of transfer, these homes remain the property of the HACN. The costs of those units are depreciated over the expected term of payoff at the time of the original agreement, generally 25 years. When the home is paid off in accordance with the agreements and title is transferred to the homebuyer, a gain or loss is recognized by HACN. For the year ended September 30, 2018, a gain of \$267,000 was recorded in connection with such transfers and is reported as other, net nonoperating revenues (expenses) on the combining statement of revenues, expenses and changes in net position – component units.

The HACN Trust Liabilities reflected in the accompanying financial statements primarily include a liability for funds that have been received from the tenants or homebuyers in the various lease-to-own programs. These funds are held in a trust type account to be applied to various uses, depending on the agreement with the tenant/homebuyer. The largest of the amounts included in this category are for accounts attributable to the New Mutual Help Housing Program wherein the tenant/homebuyers are credited with a portion of the funds that they have contributed as well as other amounts credited to them in accordance with HUD requirements and program policies. Under the provisions of mutual help occupancy agreements, tenant/homebuyers are required to make payments based on the family or household income. After deducting an administrative fee as set forth by HUD, the remaining balance is credited to the participant's equity payment account (MEPA). The balance of the MEPA accounts, which are being held by HACN on behalf of the New Mutual Help homebuyers, was \$2,672,000 as of September 30, 2018. This along with other credits to these tenant/homebuyers totaled \$3,042,000 at September 30, 2018. 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, 2018, other amounts included in this category include escrow deposits held by the HACN associated with the Title VI program mortgages totaling \$11,000, and low income housing tenants' security deposits of \$29,000.

### 13. FUND BALANCE CLASSIFICATION

The details for the Nation's fund balances presented in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of September 30, 2018 are as shown on the below (dollars in thousands):

	General Fund	Major Special Revenue Funds			Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
		PL 102-477	Self Governance DHHS	Housing & Urban Development			
<b>Fund balances:</b>							
<b>Nonspendable:</b>							
Inventory & other assets	\$ -	\$ -	\$ 12,272	\$ -	\$ -	\$ -	\$ 12,272
Permanent fund principal	-	-	-	-	-	425	425
<b>Restricted for:</b>							
Federal, State and Private Grants	-	931	49,683	1,421	-	19,879	71,914
Education, Health, Roads, Safety (MFT)	51,769	-	-	-	-	-	51,769
Education (MVT)	6,767	-	-	-	-	-	6,767
Roads (MVT)	9,155	-	-	-	-	-	9,155
Law Enforcement (MVT)	741	-	-	-	-	-	741
<b>Committed for:</b>							
Contract Health Services	1,129	-	-	-	-	-	1,129
Land Acquisitions	4,307	-	-	-	-	-	4,307
Heart of the Nation	33	-	-	-	-	-	33
Job Training and Tuition	194	-	-	-	-	-	194
Student activities	204	-	-	-	-	-	204
TERO Job Training Programs	111	-	-	-	-	-	111
Emergency Reserve Fund	2,590	-	-	-	-	-	2,590
<b>Assigned to:</b>							
Budgetary Resources for Subsequent Year	14,792	-	-	-	-	-	14,792
<b>Unassigned:*</b>	<u>23,412</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,149)</u>	<u>-</u>	<u>21,263</u>
Total fund balances	<u>\$ 115,204</u>	<u>\$ 931</u>	<u>\$ 61,955</u>	<u>\$ 1,421</u>	<u>\$ (2,149)</u>	<u>\$ 20,304</u>	<u>\$ 197,666</u>

\* Legislative Act (LA) 05-02 established a cash reserve in the amount of 1.75% of the original operating budget of each fiscal year to use as a stabilization fund. LA 28-04 amended LA 05-02 and established a \$5,000,000 Line of Credit as part of the 1.75% reserve. The legislative acts do not commit specific uses of the reserve; therefore the balance is shown as unassigned. For the current fiscal year \$5,781,000 of the unassigned fund balance was set aside to meet the \$10,781,000 reserve. For Fiscal Year 2019, the reserve has been increased by \$1,203,000 for a reserve balance of \$11,984,000.

At September 30, 2018, the capital projects fund reported a deficit fund balance of \$2,149,000. The deficit was caused by expenses for construction of the Nation's new outpatient health facility in Tahlequah being accrued at year end but the loan funds to fund those expenses were not drawn from the financial institution until the financial institution trustee approved the loan drawdown request, which was submitted in October 2018.

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

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

Federal regulations will require the Nation to place a final cover on its landfill site when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for thirty years after closure. Although closure and postclosure care costs will only be paid near or after the date the landfill stops accepting waste, GASB Statement No. 18 requires proprietary funds, such as Landfill Closure, to report a portion of these costs as an operating expense in each period based on landfill capacity and utilization. The \$3,462,000 reported as Landfill Closure and Postclosure Care Liability at September 30, 2018 (included in other noncurrent liabilities), represents the cumulative costs recognized to date based on the existing use of 42% of the total estimated capacity of the landfill. Landfill Closure will recognize the remaining estimated cost of closure and postclosure care of approximately \$4,722,000 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 2018. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Nation expects the landfill to have a remaining life of approximately 8.2 million cubic yards. Actual remaining years of operation is dependent 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, 2018, restricted cash, cash equivalents and investments of approximately \$3,274,000 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.

No closure/postclosure liability has been reported by the Nation at September 30, 2018 for this landfill in its governmental funds because of the long-term nature of the liability.

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

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

The Nation is self-insured against employee health and short-term disability claims incurred under its employee group health disability plan. The maximum liability risk to the Nation is \$200,000 per employee per year for employee health. Any claims in excess of this limit are covered by insurance. Significant insurable exposures other than health claims are covered by commercial insurance. For insured exposures, there were no significant reductions in insurance coverage during the year ended September 30, 2018. 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 \$3,828,000 at September 30, 2018, has been recorded in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

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

<b>Fiscal Year</b>	<b>Balance at Beginning of Year</b>	<b>Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Balance at End of Year</b>
2016	\$3,232	\$31,149	(\$30,856)	\$3,525
2017	\$3,525	\$33,412	(\$34,652)	\$2,285
2018	\$2,285	\$37,664	(\$36,121)	\$3,828

The claims above are expected to be paid from currently available financial resources and are included in Governmental Activities – Internal Services Funds in the accompanying Proprietary Funds Statement of Net Position, as other current liabilities.

Workers’ Compensation benefits are provided within the All Lines Aggregate (ALA) program and comply with our Tribal Workers’ Compensation Act (TWCA). There is a \$100,000 retention on each claim with a maximum benefit of \$5,000,000 per person/per claim for compensation and other benefits; Employers Liability has a \$10,000,000 per person/claim limit.

The first \$100,000 of risk is retained on all coverage lines within the All Lines Aggregate (ALA) program with the exception of a \$100,000 deductible on Tribal Officials Errors and Omissions Coverage. The ALA program responds to losses over the \$100,000 retention/deductible level. A Stop Loss equivalent to 1.8% of payroll is in place to limit the Nation’s exposure. Program design also 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 Occurrence. Coverage provided by the ALA program includes the following liability coverage on a \$10,000,000 per occurrence basis: Comprehensive General Liability, Products/Completed operations including but not limited to Contractual Liability, Special Events Liability, Sexual Misconduct Liability, Cemetery Malpractice, Law Enforcement Professional 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 Motorist, Automobile Physical Damage, Garage Keeper’s Legal Liability and Valet Parking. The following coverage lines are provided on a Claims-made basis with a limit of \$10,000,000 each occurrence and in the Aggregate: Tribal Officials Liability, Miscellaneous Professional Errors and Omissions Liability, Employee Benefit Liability, and Employment Practices Liability. Retroactive date of October 1, 2003 applies to all coverage lines within this class. A \$15,000,000 Umbrella (Excess) follows form of underlying coverage. The Fiduciary Liability policy was short-termed to match effective dates of the ALA program; and, the Employee Benefit Plans were endorsed to this policy which will provide better coverage. The Earthquake limit on the Commercial Property policy is \$5,000,000; and the Flood limit is \$10,000,000. It should be noted that the commercial property losses are included in the Stop Loss. Also, under the Commercial Property policy Course of Construction limit remains at \$25,000,000; E-Commerce Liability limit is \$2,000,000; and a new endorsement for \$1,000,000 in Active Assailant coverage was added. Cyber Liability remains in effect with a \$10,000,000 limit and an applicable \$100,000 retention applies. A separate Pollution Liability policy provides a \$25,000,000 Limit with \$75,000 retention per contamination. A Crime policy is maintained providing a \$1,000,000 per occurrence loss limit with a lower deductible of \$10,000. An Owners Protective Professional Indemnity Policy (OPPI) was added for the New Tahlequah Health Center providing a \$10,000,000 combined Aggregate limit; and, includes a 10-Year Extended Reporting Period.

To comply with the Service Contract Act and Davis-Bacon Act contracts, a fully-insured benefits package was offered in 2018. The third-party administrator, The Boon Group, managed the trust. CNB provided monthly accounting of the hours worked and made contributions to The Boon Group. The benefits package was a take all or nothing arrangement. Effective January 1, 2019, the Service Contract Act and Davis-

Bacon Act employees will be offered self-funded medical and dental plans and participate in similar plans as other component unit employees.

CNB provides employee health coverage under two separate self-insured group health plans covering different groups of employees. The maximum liability per participant per plan year is \$300,000. Any claims in excess of these limits are covered by stop-loss insurance. Self-insurance liabilities are estimated based on claims experience and are included in accounts payable and accrued liabilities in the accompanying statements of net position. Additionally, CNB provides fully-insured health and welfare benefits for certain employees overseas. Information concerning the changes in the CNB self-insurance medical liability reported as accounts payable and accrued liabilities in CNB's statement of net position follows (dollars in thousands):

<b>Fiscal Year</b>	<b>Balance at Beginning of Year</b>	<b>Claims and Changes in Estimates</b>	<b>Claim Payments</b>	<b>Balance at End of Year</b>
2016	\$4,799	\$52,887	(\$53,133)	\$4,553
2017	\$4,553	\$49,149	(\$48,818)	\$4,884
2018	\$4,884	\$45,990	(\$46,134)	\$4,740

#### **16. EMPLOYEE RETIREMENT PLAN**

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

The Nation's primary government's total gross payroll for fiscal year 2018 was approximately \$183,156,000, which included approximately \$181,421,000 for employees covered by the plan. Contributions to the 401(k) plan for 2018 were approximately \$15,087,000. Contributions expressed in dollars and percent of covered payroll were: Nation \$6,383,000, 3.5% and participants \$8,704,000, 4.8%.

The Nation's required contribution and percentage of contribution for fiscal year 2018 and the two preceding years follows on the next page:

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
2016	\$6,041	100%
2017	\$6,130	100%
2018	\$6,383	100%

The Cherokee Nation Elected and Appointed Official’s 401(k) Plan and Trust is a qualified defined contribution plan established by the Nation for the benefit of the Nation’s eligible elected and appointed officials. This plan is intended to constitute a qualified profit sharing plan within the meaning of Code Section 401(a), and all regulations issued under the Code (the “Regulations”), to the extent applicable to a governmental plan. This plan does not elect to be subject to provisions of the Code that are not applicable to a governmental plan nor, unless specifically provided, to any of the provisions of the Employee Retirement Income Security Act of 1974. Contributions to the CN Elected and Appointed Official’s 401(k) plan for 2018 were \$291,000 of which \$90,000 was required and made by the Nation and \$201,000 was made by participants.

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

The Cherokee Nation Businesses, LLC 401(k) Plan (the Plan) allows full-time employees of CNB and certain component units who have 60 days of service and are at least 21 years of age to participate in the Plan. Under the provisions of the Plan, participants may elect to contribute from 1% to 90% of their eligible compensation, up to the Internal Revenue Service annual limit, for which CNB and these component units will match 100% of the first 6% contributed. During 2018 participating employees contributed approximately \$16,800,000 with employer-matching contributions of approximately \$13,100,000 to the Plan.

The Cherokee Nation Services 401(k) Plan covers substantially all full-time employees of health related CNB companies. This 401(k) plan provides for no matching contributions.

The Cherokee Nation Government Solutions, LLC 401(k) Plan covers full-time employees, who are at least age 21, of CNTS, CNM&C and CNDI. This 401(k) plan provides for a 50% match of the first 4% of employee contributions. Employer contributions to this 401(k) plan were \$563,000 for 2018.

Effective January 1, 2019, the Cherokee Nation Services 401(k) Plan and Cherokee Nation Government Solutions, LLC 401(k) Plan were merged into the Cherokee Nation Businesses, LLC 401(k) Plan.

At September 30, 2018 liabilities under deferred compensation and long-term incentive compensation arrangements for executives of CNB and its component units totaled \$7,864,000 which has been recorded as accounts payable and accrued liabilities.

CNCCA has adopted a 401(k) retirement plan for its employees. Employees are eligible to participate beginning six months from the date of employment, with a minimum of 1,000 hours of service. Employees may contribute up to 50% of their compensation to the plan subject to maximum contributions established by the IRS. CNCCA makes matching contributions up to 3% of an eligible employee’s annual compensation. Employer contributions to the plan fully vest after three years of participation. CNCCA’s total contributions for the year ended September 30, 2018 were approximately \$49,000. The plan also has a profit sharing provision. The amount of the profit sharing contribution is at the discretion of the board of CNCCA. Profit sharing contributions are fully vested after three years of participation. CNCCA made no profit sharing contributions for the year ended September 30, 2018.

CNHHS has a defined contribution plan covering substantially all employees. Pension expense is recorded for the amount of CNHHS's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by CNHHS's Governing Board. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of CNHHS's governing body. Contribution rates for the plan members and CNHHS expressed as a percentage of covered payroll were 1.8% for 2018. Contributions made by plan members was \$49,000 and by none by CNHHS during 2018.

CNF has a defined contribution plan in the form of a simple IRA. The plan allows for employee deferrals into the plan along with a company match of 3%. During 2017, the organization contributed \$5,600 to the plan for the benefit of their employees.

## **17. RELATED PARTY TRANSACTIONS**

The Nation requires monthly dividend payments from component units, organized under the Nation's laws, based on a percentage of net income (37% as of September 30, 2018). Dividend payments to the Nation by component units totaled \$55,983,000 (which includes an accrual of \$4,940,000) at September 30, 2018.

### *Cherokee Nation Businesses, LLC (CNB)*

Contributions of \$3,903,000 in 2018 in support of the Cherokee Nation Gaming Commission and Cherokee Nation Marshal Services.

Contributions of \$1,512,000 in 2018 in support of various Cherokee Nation programs.

Contributions of \$1,000,000 in 2018 in support of Cherokee Nation economic development and cultural development activities.

Debt forgiveness of \$1,182,000 in 2018 to the Cherokee Nation Comprehensive Care Agency.

Contributions of \$1,192,000 in 2018 for Cherokee Nation capital asset acquisitions.

CNB provides funding for cultural development activities on behalf of the Nation. These activities involve restoring Cherokee landmarks as well as engaging in campaigns to inform the public of the Nation's history and making contributions to communities within the Nation. During 2018, CNB incurred \$3,795,000 in operating and employee costs related to cultural development activities, which are included in expenses in the accompanying statements of revenues, expenses and changes in net position.

CNB operates the gift shop at the Cherokee Heritage Center. The operations of the gift shop are included in the accompanying financial statements and resulted in a net loss of \$111,000 in 2018. In addition to operating the gift shop, CNB provides marketing services for the Cherokee Heritage Center. The cost of the marketing services totaled \$225,000 for 2018 and is included in salaries and wages and other charges and services in the combining statement of revenues, expenses and changes in net position – component units.

CNE also collects a tribal tax on food and beverage, tobacco, merchandise and other retail sales, which is remitted to the Cherokee Nation Tax Commission. CNE remitted tribal taxes of \$4,448,000 in 2018. These tax collections are not recorded as revenues or expenses in the combining statement of revenues, expenses and changes in net position – component units.

CNE has entered into a management agreement with the Nation for use of land in Tahlequah to operate a convenience store. The term of the agreement is 25 years, and the agreement is renewable for an additional 25 years at the cost of \$1 per year.



During 2013, the board of directors of CNB and related entities approved the funding of up to \$100,000,000 on the Nation's medical facilities. An additional funding commitment of \$9,500,000 was added as of September 30, 2014, bringing the total CNB commitment to \$109,500,000. In 2018, CNB transferred \$154,000 on these projects. As of September 30, 2018, CNB has transferred a total of \$54,400,000 of medical facilities to the Nation, leaving a remaining commitment of \$55,100,000 at September 30, 2018. This remaining commitment is expected to be funded in 2019.

*Housing Authority of the Cherokee Nation of Oklahoma (HACN)*

The HACN has recorded \$21,113,000 in grant revenue in 2018 which is the result of pass through funding from the Nation in relation to the Nation's HUD funding. Additionally, the HACN has recorded grant revenue totaling \$58,000 related to self governance funding received from the Nation for use in providing housing rehabilitation services. Also, the HACN has recorded as "Other Income" \$833,000 of non-federal funds received from the Nation for use in providing housing services.

*Cherokee Health Partners, LLC (CHP)*

CHP paid the Nation \$37,000 for medical director expenses for the year ended June 30, 2018. CHP declared \$462,000 in noncash distributions to the Nation during the year ended June 30, 2018.

*Cherokee National Historical Society, Inc (CNHS)*

In November 2005, the Nation, CNE, and the CNHS entered into a MOA 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. Beginning in 2016, operations associated with the gift shop at the Cherokee Heritage Center were recorded in the operating results of CNB rather than CNE. CNHS remained responsible for all charitable fundraising, maintaining memberships, operating the museum and teaching the Cherokee Humanities Course. In 2018, CNB provided marketing services, including group sales, and operation of the museum store at a net cost to CNB of \$225,000.

The Nation performed all remaining operational and educational functions such as accounting, purchasing, contracts, human resources, information technology, and facilities maintenance. The MOA is renewable annually upon agreement of the entities involved. For fiscal year 2018, the Nation's general fund included operational expenses of \$719,000 for CNHS.

## **18. COMMITMENTS AND CONTINGENCIES**

*Federal Grants*

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

*Construction Commitments*

At September 30, 2018, the Nation had a construction project underway for the building of an outpatient health facility in Tahlequah, OK. The open commitments for that construction project at September 30, 2018 totaled \$7,998,000. These remaining costs are expected to be incurred during 2019. The new outpatient health facility in Tahlequah is scheduled to begin operations in 2019.

### *Other Legal Contingencies*

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

### *CNB Matters*

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

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

CNE has entered into motor fuel marketing agreements with a vendor to purchase motor fuel products for sale at the Roland Travel Plaza in Roland, Oklahoma. Total purchases under this agreement were \$4,138,000 in 2018.

In 2004, CNE acquired WRD 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 BIA and could be required to make additional payments based on the cash flows generated by the operation of the facility. These additional payments will be capitalized when, and if, made and depreciated, as applicable, over the remaining economic life of the property. No additional payments as described above have been required since the acquisition.

In November 2008, CNE entered into a licensing agreement with Hard Rock Hotel Holding, LLC and HRHH IP, LLC. Under the terms of the agreement, CNE branded its Catoosa property under the Hard Rock Hotel and Casino name effective August 2009. CNE is required to make monthly license payments based on a percentage of Catoosa property revenues, as defined in the agreement. CNE recognizes the portion of the minimum fee paid each month that exceeds the calculated amount as an intangible asset. The intangible asset is being amortized over the 12-year life of the license agreement. The minimum amount of fees paid is expensed and included in operating expense in the combining statement of revenues, expenses and changes in net position – component units. In addition to paying a license fee under the Hard Rock license agreement, CNE is also required to make annual lease payments for memorabilia displayed throughout the Catoosa facility. As a requirement to the agreement, CNE is also required to meet certain operational and capital standards. As of September 30, 2018, CNE believes it is in compliance with the agreement.

EDC has entered into an indemnification agreement in connection with its NMTC activity that subjects it to various recapture events as defined. The exposure under two of these events is limited to a multiple of fees paid to the company. There is no maximum amount for the third type of event, though it is limited to the Recapture Amount defined in the indemnity agreement.

### *HACN Matters*

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

### *Loan Guarantees*

The Nation approved a loan guarantee for CNHHS up to \$786,000.

## **19. SUBSEQUENT EVENTS**

Subsequent to year end, the federal government of the United States entered into a government shutdown beginning on December 22, 2018 and temporarily ending on January 25, 2019. The federal government was able to avoid an additional shutdown slated for February 15, 2019 on the day prior to the deadline. The federal programs are now appropriated until the end of fiscal year 2019. Management monitored and evaluated the effects of the shutdown on the Nation.

On February 1, 2019, the Nation paid off the remaining \$465,000 of the Title VI loan program detailed in Note 8.

Subsequent to year end, the Hard Rock licensing agreement was extended through December 2028.



ᐃᓄᓄᓄ  
*Family*  
A Bridge to the Future  
A Link to the Past



Original Dawes Rolls Enrollee:  
Clarence Fargo and Wife, Edna

OTHER SUPPLEMENTARY INFORMATION



ᄃᆞᆯᆞᆯ  
*Family*  
A Bridge to the Future  
A Link to the Past



Original Dawes Rolls Enrollee:  
Waunetta Taylor



Original Dawes Rolls Enrollees:  
Charlie Horn, Theodore Taylor

NONMAJOR GOVERNMENTAL FUNDS

2018 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 tribal jurisdictional service area.
- **Sequoyah Education** – Established to account for grant funds received from the Department of the Interior and the Department of Education 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.
- **Self Governance DOI - Roads** – Established to account for funds received from the Department of the Interior 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.
- **Other Grants** – Established to account for various sources of grant funds used to fund specific program activities.
- **Tribal Judgment Funds** – Established to account for monies received by the Nation from the settlement of disputes with the United States Government. The judgment funds are expended in accordance with plans for use and distribution adopted by the Nation and approved as applicable, by the DOI. The judgment funds are held and invested by the DOI Office of Trust Fund Management (OTFM) on behalf and for the benefit of the Nation.
- **Tribal Trusts** – Established to account for income received from external users of tribal lands, such as oil and gas royalties. The DOI OTFM administers these funds which may be expended upon request and approval by the DOI.

**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 students 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, 2018  
 (Dollars in Thousands)

	Special Revenue Funds							Permanent Funds			Total Nonmajor Governmental Funds					
	Self Governance DOI-Other	Sequoyah Education	Talking Leaves Job Corps	Diabetes	Food Distribution	Women, Infants, & Children	Head Start	Self Governance DOI Roads	Other Grants	Tribal Judgment Funds		Tribal Trusts	Total	Sequoyah Endowment	Gammon Education Trust	Total
<b>ASSETS</b>																
Cash and cash equivalents	\$ 6,953	\$ 10,626	\$ 26	\$ -	\$ -	\$ -	\$ -	\$ 2,604	\$ 1,376	\$ 51	\$ 27	\$ 21,663	\$ -	\$ -	\$ -	\$ 21,663
Investments	-	-	-	-	-	-	-	5,134	4,035	11,832	4,210	25,211	-	-	-	25,211
Receivables, net	8	-	1,665	64	14	5	65	-	4,383	102	39	6,345	-	-	-	6,345
Due from other funds	-	-	-	-	-	19	-	-	-	-	9	28	-	-	-	28
Inventories	-	-	-	-	1,467	-	-	-	-	-	-	1,467	-	-	-	1,467
Other current assets	8	-	-	540	-	292	-	-	-	-	-	840	-	-	-	840
Restricted cash, cash equivalents and investments	-	-	-	-	-	-	-	-	-	-	-	-	215	297	512	512
<b>Total assets</b>	<b>\$ 6,969</b>	<b>\$ 10,626</b>	<b>\$ 1,691</b>	<b>\$ 604</b>	<b>\$ 1,481</b>	<b>\$ 316</b>	<b>\$ 65</b>	<b>\$ 7,738</b>	<b>\$ 9,794</b>	<b>\$ 11,985</b>	<b>\$ 4,285</b>	<b>\$ 55,554</b>	<b>\$ 215</b>	<b>\$ 297</b>	<b>\$ 512</b>	<b>\$ 56,066</b>
<b>LIABILITIES AND FUND BALANCES</b>																
<b>Liabilities:</b>																
Accrued liabilities	\$ -	\$ -	\$ -	\$ 27	\$ 2	\$ -	\$ -	\$ -	\$ 6	\$ -	\$ -	\$ 35	\$ -	\$ -	\$ -	\$ 35
Due to other funds	1,116	3,630	1,691	577	12	-	65	1,142	1,303	1,813	-	11,349	-	-	-	11,349
Other liabilities	-	-	-	-	-	27	-	-	-	-	-	27	-	-	-	27
Unearned revenue	5,853	6,958	-	-	1,467	289	-	6,596	3,188	-	-	24,351	-	-	-	24,351
Total liabilities	6,969	10,588	1,691	604	1,481	316	65	7,738	4,497	1,813	-	35,762	-	-	-	35,762
<b>Fund balances:</b>																
Nonspendable	-	-	-	-	-	-	-	-	-	-	-	-	134	291	425	425
Restricted	-	38	-	-	-	-	-	-	5,297	10,172	4,285	19,792	81	6	87	19,879
Total fund balances	-	38	-	-	-	-	-	-	5,297	10,172	4,285	19,792	215	297	512	20,304
<b>Total liabilities and fund balances</b>	<b>\$ 6,969</b>	<b>\$ 10,626</b>	<b>\$ 1,691</b>	<b>\$ 604</b>	<b>\$ 1,481</b>	<b>\$ 316</b>	<b>\$ 65</b>	<b>\$ 7,738</b>	<b>\$ 9,794</b>	<b>\$ 11,985</b>	<b>\$ 4,285</b>	<b>\$ 55,554</b>	<b>\$ 215</b>	<b>\$ 297</b>	<b>\$ 512</b>	<b>\$ 56,066</b>

CHEROKEE NATION

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2018  
 (Dollars in Thousands)

	Special Revenue Funds										Permanent Funds			Total Nonmajor Governmental Funds		
	Self Governance DOI-Other	Sequoyah Education	Talking Leaves Job Corps	Diabetes	Food Distribution	Women, infants, & Children	Head Start	Self Governance DOI Roads	Other Grants	Tribal Judgment Funds	Tribal Trusts	Total	Sequoyah Endowment		Gammon Education Trust	Total
Revenues:																
Intergovernmental	\$ 11,173	\$ 7,740	\$ 6,112	\$ 7,377	\$ 11,176	\$ 5,536	\$ 7,864	\$ 3,171	\$ 27,811	\$ -	\$ -	\$ 87,960	\$ -	\$ -	\$ -	\$ 87,960
Interest	54	94	-	-	-	-	-	127	40	360	126	801	2	4	6	807
Other	1,155	-	-	-	95	-	1,734	-	3,952	-	91	7,027	-	-	-	7,027
Third party revenues	-	-	-	-	-	-	-	-	1,778	-	-	1,778	-	-	-	1,778
Total revenues	12,382	7,834	6,112	7,377	11,271	5,536	9,598	3,298	33,581	360	217	97,566	2	4	6	97,572
Expenditures:																
Current operating:																
Tribal government	5,372	-	-	-	-	-	-	-	545	473	177	6,567	-	-	-	6,567
Health services	-	-	-	7,150	-	5,536	-	-	10,830	-	-	23,516	-	-	-	23,516
Education services	3,026	8,847	6,106	-	-	-	9,511	-	3,010	-	-	30,500	-	-	-	30,500
Human services	3,304	-	-	-	12,044	-	-	-	12,097	-	-	27,445	-	-	-	27,445
Community services	600	-	-	-	-	-	-	3,127	4,102	-	-	7,829	-	-	-	7,829
Capital outlay	68	-	6	227	260	-	87	44	1,045	-	-	1,737	-	-	-	1,737
Total expenditures	12,370	8,847	6,112	7,377	12,304	5,536	9,598	3,171	31,629	473	177	97,594	-	-	-	97,594
Excess (deficiency) of revenues over (under) expenditures	12	(1,013)	-	-	(1,033)	-	-	127	1,952	(113)	40	(28)	2	4	6	(22)
Other financing sources (uses):																
Insurance recoveries	-	-	-	-	2	-	-	-	-	-	-	2	-	-	-	2
Transfers in	80	1,031	-	-	1,031	-	-	-	828	-	-	2,970	-	-	-	2,970
Transfers out	(92)	-	-	-	-	-	-	(127)	(3,917)	-	-	(4,136)	-	-	-	(4,136)
Total other financing sources (uses)	(12)	1,031	-	-	1,033	-	-	(127)	(3,089)	-	-	(1,164)	-	-	-	(1,164)
Net change in fund balances	-	18	-	-	-	-	-	-	(1,137)	(113)	40	(1,192)	2	4	6	(1,186)
Fund balance, October 1, 2017	-	20	-	-	-	-	-	-	6,434	10,285	4,245	20,984	213	293	506	21,490
Fund balance, September 30, 2018	\$ -	\$ 38	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,297	\$ 10,172	\$ 4,285	\$ 19,792	\$ 215	\$ 297	\$ 512	\$ 20,304



ᄒᆞᆫᆯᆞᆫ  
*Family*  
A Bridge to the Future  
A Link to the Past



Original Dawes Rolls Enrollees:  
Thompson Downing Family  
l-r: Lucy, Thompson, Nancy, Polly Osage,  
Sallie (wife), Martha Osage, Steven Osage



Original Dawes Rolls Enrollee:  
John Taylor

## NONMAJOR ENTERPRISE FUNDS

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

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

# CHEROKEE NATION

## COMBINING STATEMENT OF NET POSITION - NONMAJOR ENTERPRISE FUNDS

SEPTEMBER 30, 2018

(Dollars in Thousands)

	Tsa-La-Gi Apartments	CN Sanitary Landfill	EDTA	Total
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 719	\$ 906	\$ 2,379	\$ 4,004
Accounts receivable, net	-	352	2	354
Notes receivable, current	-	-	2,734	2,734
Other current assets	2	-	-	2
Total current assets	<u>721</u>	<u>1,258</u>	<u>5,115</u>	<u>7,094</u>
Noncurrent assets:				
Restricted cash, cash equivalents and investments	26	3,274	-	3,300
Long-term notes receivable	-	-	7,584	7,584
Capital assets, net	278	953	-	1,231
Total noncurrent assets	<u>304</u>	<u>4,227</u>	<u>7,584</u>	<u>12,115</u>
Total assets	<u>1,025</u>	<u>5,485</u>	<u>12,699</u>	<u>19,209</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accrued liabilities	26	-	-	26
Current portion of long-term debt	-	-	65	65
Current portion of capital leases	-	222	-	222
Due to other funds	10	466	-	476
Other current liabilities	25	-	16	41
Total current liabilities	<u>61</u>	<u>688</u>	<u>81</u>	<u>830</u>
Noncurrent liabilities:				
Long-term debt	-	-	869	869
Capital leases	-	362	-	362
Other liabilities	-	3,462	-	3,462
Total noncurrent liabilities	<u>-</u>	<u>3,824</u>	<u>869</u>	<u>4,693</u>
Total liabilities	<u>61</u>	<u>4,512</u>	<u>950</u>	<u>5,523</u>
<b>NET POSITION</b>				
Net investment in capital assets	278	369	-	647
Unrestricted	686	604	11,749	13,039
Total net position	<u>\$ 964</u>	<u>\$ 973</u>	<u>\$ 11,749</u>	<u>\$ 13,686</u>

# CHEROKEE NATION

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION - NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2018 (Dollars in Thousands)

	Tsa-La-Gi Apartments	CN Sanitary Landfill	EDTA	Total
Operating revenues:				
Property rentals	\$ 592	\$ -	\$ -	\$ 592
Charges for services and goods	-	1,226	-	1,226
Interest income, loans	-	-	502	502
Other	3	-	135	138
Total operating revenues	<u>595</u>	<u>1,226</u>	<u>637</u>	<u>2,458</u>
Operating expenses:				
Salaries and wages	108	554	-	662
Other services and charges	465	1,136	240	1,841
Materials and supplies	30	23	-	53
Depreciation	52	463	-	515
Total operating expenses	<u>655</u>	<u>2,176</u>	<u>240</u>	<u>3,071</u>
Operating income (loss)	<u>(60)</u>	<u>(950)</u>	<u>397</u>	<u>(613)</u>
Nonoperating revenues (expenses):				
Interest income	3	59	4	66
Interest expense	-	(14)	(10)	(24)
Net nonoperating revenues (expenses)	<u>3</u>	<u>45</u>	<u>(6)</u>	<u>42</u>
Income (loss) before transfers	(57)	(905)	391	(571)
Transfers in	-	650	1,013	1,663
Change in net position	(57)	(255)	1,404	1,092
Total net position - beginning	<u>1,021</u>	<u>1,228</u>	<u>10,345</u>	<u>12,594</u>
Total net position - ending	<u>\$ 964</u>	<u>\$ 973</u>	<u>\$ 11,749</u>	<u>\$ 13,686</u>



# CHEROKEE NATION

## COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2018 (Dollars in Thousands)

	Tsa-La-Gi Apartments	CN Sanitary Landfill	EDTA	Total
<b>Cash flows from operating activities:</b>				
Receipts from customers	\$ 592	\$ 1,242	\$ (2)	\$ 1,832
Payments to suppliers	(509)	(1,185)	(230)	(1,924)
Payments to employees	(108)	(554)	-	(662)
Internal activity - payments to other funds	3	-	290	293
Internal activity - payments from component units	-	(22)	-	(22)
Interest received on loans	-	-	502	502
Other receipts	-	-	135	135
Other payments	(37)	-	-	(37)
Net cash provided by (used for) operating activities	<u>(59)</u>	<u>(519)</u>	<u>695</u>	<u>117</u>
<b>Cash flows from noncapital financing activities:</b>				
Transfer from other funds	-	650	1,013	1,663
Principal paid on notes payable	-	-	(64)	(64)
Interest paid on notes payable	-	-	(10)	(10)
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>650</u>	<u>939</u>	<u>1,589</u>
<b>Cash flows from capital and related financing activities:</b>				
Proceeds from capital debt and leases	-	(218)	-	(218)
Interest paid on capital debt and leases	-	(14)	-	(14)
Net cash (used for) capital and related financing activities	<u>-</u>	<u>(232)</u>	<u>-</u>	<u>(232)</u>
<b>Cash flows from investing activities:</b>				
Interest received	3	59	4	66
Increase in notes receivable, net	-	-	(599)	(599)
Net cash provided by (used for) investing activities	<u>3</u>	<u>59</u>	<u>(595)</u>	<u>(533)</u>
Net increase (decrease) in cash and cash equivalents	(56)	(42)	1,039	941
Cash and cash equivalents, October 1, 2017	<u>801</u>	<u>4,222</u>	<u>1,340</u>	<u>6,363</u>
Cash and cash equivalents, September 30, 2018	<u>\$ 745</u>	<u>\$ 4,180</u>	<u>\$ 2,379</u>	<u>\$ 7,304</u>
Cash and cash equivalents consist of:				
Unrestricted cash and cash equivalents	\$ 719	\$ 906	\$ 2,379	\$ 4,004
Restricted cash, cash equivalents and investments	26	3,274	-	3,300
Total Cash and Cash Equivalents, September 30, 2018	<u>\$ 745</u>	<u>\$ 4,180</u>	<u>\$ 2,379</u>	<u>\$ 7,304</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (60)	\$ (950)	\$ 397	\$ (613)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	52	463	-	515
Change in assets and liabilities:				
Receivables, net	-	16	288	304
Accounts and other payables	(51)	(48)	10	(89)
Net cash provided by (used for) operating activities	<u>\$ (59)</u>	<u>\$ (519)</u>	<u>\$ 695</u>	<u>\$ 117</u>

ፔፕሊክ  
*Family*  
A Bridge to the Future  
A Link to the Past



Original Dawes Rolls Enrollees:  
Sarah Fitts and Johnson Pathkiller



Original Dawes Rolls Enrollee:  
William Pathkiller

## INTERNAL SERVICE FUNDS

2018 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.
- **Fringe Pool** is used to account for the cost of fringe benefits, including the Nation's self-insured health care benefits and workers' compensation benefits, used by other funds of the Nation.
- **Indirect Cost Pool** is used to account for the cost of providing certain services for a common or joint purpose benefiting more than one cost objective and not readily assignable to the cost objectives specifically benefitted, such as accounting, human resources and acquisition management, to other funds of the Nation.



# CHEROKEE NATION

## COMBINING STATEMENT OF NET POSITION - INTERNAL SERVICE FUNDS

SEPTEMBER 30, 2018

(Dollars in Thousands)

	<u>Internal Leases</u>	<u>Fringe Pool</u>	<u>Indirect Cost Pool</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ -	\$ 43	\$ 178	\$ 221
Accounts receivable, net	-	986	110	1,096
Due from other funds	-	13,558	3,789	17,347
Due from component units	-	120	209	329
Inventories	-	-	252	252
Other current assets	-	40	753	793
Total current assets	<u>-</u>	<u>14,747</u>	<u>5,291</u>	<u>20,038</u>
Noncurrent assets:				
Capital assets, net	<u>25,089</u>	<u>-</u>	<u>1,367</u>	<u>26,456</u>
Total noncurrent assets	<u>25,089</u>	<u>-</u>	<u>1,367</u>	<u>26,456</u>
Total assets	<u>25,089</u>	<u>14,747</u>	<u>6,658</u>	<u>46,494</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accrued liabilities	-	9,740	625	10,365
Due to other funds	2,130	-	-	2,130
Compensated absences	-	8,293	-	8,293
Other current liabilities	-	3,828	2,436	6,264
Total current liabilities	<u>2,130</u>	<u>21,861</u>	<u>3,061</u>	<u>27,052</u>
Total liabilities	<u>2,130</u>	<u>21,861</u>	<u>3,061</u>	<u>27,052</u>
<b>NET POSITION</b>				
Net investment in capital assets	25,089	-	1,367	26,456
Unrestricted (deficit)	<u>(2,130)</u>	<u>(7,114)</u>	<u>2,230</u>	<u>(7,014)</u>
Total net position	<u>\$ 22,959</u>	<u>\$ (7,114)</u>	<u>\$ 3,597</u>	<u>\$ 19,442</u>

## CHEROKEE NATION

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -  
INTERNAL SERVICE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018  
(Dollars in Thousands)**

	Internal Leases	Fringe Pool	Indirect Cost Pool	Total
Operating revenues:				
Property rentals	\$ 6	\$ -	\$ -	\$ 6
Charges for services and goods	5,362	85,646	46,201	137,209
Other	59	-	523	582
Total operating revenues	<u>5,427</u>	<u>85,646</u>	<u>46,724</u>	<u>137,797</u>
Operating expenses:				
Salaries and wages	2,565	86,535	26,258	115,358
Other services and charges	1,964	16	16,583	18,563
Materials and supplies	450	-	1,636	2,086
Depreciation	1,013	-	573	1,586
Total operating expenses	<u>5,992</u>	<u>86,551</u>	<u>45,050</u>	<u>137,593</u>
Operating income (loss)	<u>(565)</u>	<u>(905)</u>	<u>1,674</u>	<u>204</u>
Nonoperating revenues (expenses):				
Insurance recoveries	140	-	-	140
Net nonoperating revenues (expenses)	<u>140</u>	<u>-</u>	<u>-</u>	<u>140</u>
Income (loss) before transfers	(425)	(905)	1,674	344
Transfers in	-	-	4	4
Change in net position	(425)	(905)	1,678	348
Total net position - beginning	<u>23,384</u>	<u>(6,209)</u>	<u>1,919</u>	<u>19,094</u>
Total net position - ending	<u>\$ 22,959</u>	<u>\$ (7,114)</u>	<u>\$ 3,597</u>	<u>\$ 19,442</u>

# CHEROKEE NATION

## COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2018 (Dollars in Thousands)

	<u>Internal Leases</u>	<u>Fringe Pool</u>	<u>Indirect Cost Pool</u>	<u>Total</u>
<b>Cash flows from operating activities:</b>				
Receipts from customers - other funds	\$ 5,368	\$ 85,041	\$ 46,221	\$ 136,630
Payments to suppliers	(2,414)	-	(18,732)	(21,146)
Payments to employees	(2,565)	(86,006)	(26,258)	(114,829)
Internal activity - payments to other funds	-	898	-	898
Internal activity - payments from other funds	(461)	-	(1,113)	(1,574)
Internal activity - payments to component units	17	78	-	95
Internal activity - payments from component units	-	-	(17)	(17)
Other receipts	59	-	523	582
Net cash provided by operating activities	<u>4</u>	<u>11</u>	<u>624</u>	<u>639</u>
<b>Cash flows from noncapital financing activities</b>				
Transfer from other funds	-	-	4	4
Net cash provided by noncapital financing activities	<u>-</u>	<u>-</u>	<u>4</u>	<u>4</u>
<b>Cash flows from capital and related financing activities:</b>				
Purchases of capital assets	(4)	-	(615)	(619)
Net cash (used for) capital and related financing activities	<u>(4)</u>	<u>-</u>	<u>(615)</u>	<u>(619)</u>
Net increase in cash and cash equivalents	-	11	13	24
Cash and cash equivalents, October 1, 2017	-	32	165	197
Cash and cash equivalents, September 30, 2018	<u>\$ -</u>	<u>\$ 43</u>	<u>\$ 178</u>	<u>\$ 221</u>
Cash and cash equivalents consist of:				
Unrestricted cash and cash equivalents	\$ -	\$ 43	\$ 178	\$ 221
Total Cash and Cash Equivalents, September 30, 2018	<u>\$ -</u>	<u>\$ 43</u>	<u>\$ 178</u>	<u>\$ 221</u>
<b>Reconciliation of operating income (loss) to net cash provided by operating activities:</b>				
Operating income (loss)	\$ (565)	\$ (905)	\$ 1,674	\$ 204
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation expense	1,013	-	573	1,586
Change in assets and liabilities:				
Receivables, net	17	66	(1,110)	(1,027)
Inventories	-	-	(92)	(92)
Other current assets	-	-	(136)	(136)
Accounts and other payables	(461)	850	(285)	104
Net cash provided by operating activities	<u>\$ 4</u>	<u>\$ 11</u>	<u>\$ 624</u>	<u>\$ 639</u>



ᄒᄒᄒᄒ  
*Family*  
A Bridge to the Future  
A Link to the Past



Original Dawes Rolls Enrollees:  
John Mankiller, Betty Canoe Family  
l-r: Sally, Jenny (Enrollee), Charlie, John  
(Enrollee), Colson (Enrollee), Betty Canoe  
(Enrollee), Mary (Enrollee)

Original Dawes Rolls Enrollee:  
Laura Bell Pathkiller

## BUDGETARY INFORMATION

# CHEROKEE NATION

**SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -  
BUDGET AND ACTUAL (GAAP BASIS) - ENTERPRISE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2018  
(Dollars in Thousands)**

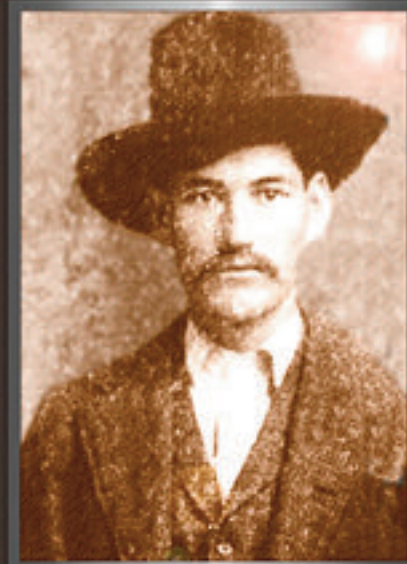
	Budgeted Amounts		Actual	Variance with Final Budget over/(under)
	Original	Final		
Operating revenues:				
Property rentals	\$ 508	\$ 508	\$ 592	\$ 84
Charges for services and goods	830	830	1,226	396
Interest income, loans	732	747	535	(212)
Other	86	91	138	47
Total operating revenues	2,156	2,176	2,491	315
Operating expenses:				
Salaries and wages	757	795	662	(133)
Other services and charges	2,908	4,260	1,841	(2,419)
Materials and supplies	45	46	53	7
Depreciation	523	523	515	(8)
Total operating expenses	4,233	5,624	3,071	(2,553)
Operating income (loss)	(2,077)	(3,448)	(580)	2,868
Nonoperating revenues(expenses):				
Interest income	1	2	67	65
Interest expense	(29)	(29)	(57)	(28)
Net nonoperating revenue (expenses)	(28)	(27)	10	37
Income (loss) before transfer of operations and transfers	(2,105)	(3,475)	(570)	2,905
Transfers in	886	2,165	1,663	(502)
Change in net position	(1,219)	(1,310)	1,093	2,403
Total net position - beginning	12,599	12,599	12,599	-
Total net position - ending	\$ 11,380	\$ 11,289	13,692	\$ 2,403
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(60)	
Net position of Enterprise Funds			\$ 13,632	



ᐃᓄᓄᓄ  
*Family*  
A Bridge to the Future  
A Link to the Past



Original Dawes Rolls Enrollee:  
Maggie (Lulu) Ratliff



Original Dawes Rolls Enrollee:  
Richard Ratliff

## STATISTICAL SECTION

2018 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 Indicators** – Demographic and economic indicators to enable users to understand the environment in which the government operates. Reports have been compiled similarly to prior years' reporting to maintain consistency.
- **Operating Information** – Schedules which contain service and program data to help users understand how the information contained in the government's financial report relates to the governmental activities performed.

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

**CHEROKEE NATION**

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Governmental Activities</b>										
Net investment in capital assets	\$ 74,152	\$ 78,468	\$ 94,667	\$ 102,104	\$ 123,091	\$ 135,395	\$ 175,662	\$ 192,687	\$ 203,046	\$ 189,233
Restricted	61,015	89,899	95,234	100,282	746,032	797,337	822,166	876,372	940,814	1,029,195
Unrestricted	68,411	50,110	49,656	61,251	32,510	54,656	42,231	41,043	33,659	59,259
<b>Total governmental activities net position</b>	<b>203,578</b>	<b>218,477</b>	<b>239,557</b>	<b>263,637</b>	<b>901,633</b>	<b>987,388</b>	<b>1,040,059</b>	<b>1,110,102</b>	<b>1,177,519</b>	<b>1,277,687</b>
<b>Business-type activities</b>										
Net investment in capital assets	253	457	514	533	483	435	386	1,201	904	647
Restricted	398	324	304	362	279	339	287	287	287	-
Unrestricted	2,478	3,128	4,052	4,800	5,263	5,655	7,624	9,991	11,342	12,985
<b>Total business-type activities net position</b>	<b>3,129</b>	<b>3,909</b>	<b>4,870</b>	<b>5,695</b>	<b>6,025</b>	<b>6,429</b>	<b>8,297</b>	<b>11,479</b>	<b>12,533</b>	<b>13,632</b>
<b>Primary government</b>										
Net investment in capital assets	74,405	78,925	95,181	102,637	123,574	135,830	176,048	193,888	203,950	189,880
Restricted	61,413	90,223	95,538	100,644	746,311	797,676	822,453	876,659	941,101	1,029,195
Unrestricted	70,889	53,238	53,708	66,051	37,773	60,311	49,855	51,034	45,001	72,244
<b>Total primary government net position</b>	<b>\$ 206,707</b>	<b>\$ 222,386</b>	<b>\$ 244,427</b>	<b>\$ 269,332</b>	<b>\$ 907,658</b>	<b>\$ 993,817</b>	<b>\$ 1,048,356</b>	<b>\$ 1,121,581</b>	<b>\$ 1,190,052</b>	<b>\$ 1,291,319</b>

2009 through 2012 net position is not comparable to 2013 and subsequent years due to the adoption of GASB 61.

**CHEROKEE NATION**

**CHANGES IN NET POSITION**

LAST TEN FISCAL YEARS (Dollars in Thousands)

(accrual basis of accounting)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Expenses</b>										
Governmental activities:										
Tribal Government	\$ 29,323	\$ 29,841	\$ 29,678	\$ 29,428	\$ 28,885	\$ 26,464	\$ 27,535	\$ 32,382	\$ 41,010	\$ 33,171
Health Services	179,806	206,013	224,634	244,547	256,465	266,606	300,161	303,202	311,892	333,037
Education Services	46,200	54,085	52,348	54,061	57,076	59,753	65,059	68,678	65,666	66,958
Human Services	36,231	37,932	38,588	38,575	40,432	40,917	42,996	45,461	46,048	48,750
Community Services	72,334	75,600	63,814	68,391	72,344	82,796	88,575	85,626	78,290	79,903
Interest on long-term debt	1,525	1,309	1,722	1,569	1,414	1,274	1,140	1,046	943	2,385
Total governmental activities expenses	365,419	404,780	410,784	436,571	456,616	477,810	525,466	536,395	543,849	564,204
Business-type activities:										
Title VI Loan Fund	826	469	302	190	124	70	57	51	45	33
Tsa-La-Gi Apartments	393	387	459	473	492	488	488	523	651	655
CN Sanitary Landfill	-	128	154	16	-	-	-	320	2,329	2,184
EDTA	73	47	67	46	124	232	155	17	55	250
Total business-type activities expenses	1,292	1,031	982	725	740	790	700	911	3,080	3,122
Total primary government expenses	\$ 366,711	\$ 405,811	\$ 411,766	\$ 437,296	\$ 457,356	\$ 478,600	\$ 526,166	\$ 537,306	\$ 546,929	\$ 567,326
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
Tribal Government	\$ 640	\$ 4,237	\$ 4,116	\$ 4,458	\$ 4,535	\$ 4,778	\$ 4,651	\$ 4,869	\$ 5,208	\$ 5,709
Health Services	52,274	58,351	69,723	72,911	81,588	93,393	103,757	104,583	126,026	140,884
Community Services	4,054	994	799	714	12	8	7	12	17	15
Increase in equity in component units	-	-	-	-	49,740	52,251	31,749	48,999	40,789	65,720
Operating grants and contributions	258,558	289,034	283,563	283,446	277,312	283,024	296,053	311,972	315,952	333,446
Capital grants and contributions	1,994	989	1,369	366	5,036	2,054	36,954	17,046	7,347	1,141
Total governmental activities program revenues	317,520	353,605	359,570	361,895	418,223	435,508	473,171	487,481	495,339	546,915
Business-type activities:										
Charges for services:										
Title VI Loan Fund	816	474	303	191	124	70	57	52	46	34
Tsa-La-Gi Apartments	519	514	508	521	511	528	533	547	601	598
CN Sanitary Landfill	-	128	154	-	-	-	-	298	1,321	1,285
EDTA	168	184	170	194	240	256	315	354	513	641
Total business-type activities program revenues	1,503	1,300	1,135	906	875	854	905	1,251	2,481	2,558
Total primary government program revenues	\$ 319,023	\$ 354,905	\$ 360,705	\$ 362,801	\$ 419,098	\$ 436,362	\$ 474,076	\$ 488,732	\$ 497,820	\$ 549,473
<b>Net (Expense)/Revenue</b>										
Governmental activities	\$ (47,899)	\$ (51,175)	\$ (51,214)	\$ (74,676)	\$ (38,393)	\$ (42,302)	\$ (52,295)	\$ (48,914)	\$ (48,510)	\$ (17,289)
Business-type activities	211	269	153	181	135	64	205	340	(599)	(564)
Total primary government net expense	\$ (47,688)	\$ (50,906)	\$ (51,061)	\$ (74,495)	\$ (38,258)	\$ (42,238)	\$ (52,090)	\$ (48,574)	\$ (49,109)	\$ (17,853)
<b>General Revenues and Other Changes in Net Position</b>										
Governmental activities:										
Motor fuel tax	7,514	7,256	7,543	7,435	7,615	7,733	8,008	8,209	8,488	9,038
Motor vehicle tax	7,400	7,707	8,441	8,960	9,641	11,654	13,638	14,680	15,074	15,867
Tobacco tax	5,312	4,194	3,990	3,943	3,631	13,466	14,217	13,505	12,254	11,831
Sales tax	1,610	2,314	2,905	3,111	3,363	3,506	3,654	3,752	4,106	4,616
Grants and contributions not restricted										
to specific programs	10,398	11,143	13,394	11,676	12,844	12,503	12,740	14,494	12,122	11,292
Unrestricted investment earnings	2,293	2,056	1,393	1,141	864	634	531	726	1,615	3,177
Dividends from component units	26,444	26,429	30,074	56,806	44,109	47,392	45,448	50,139	49,444	55,983
Litigation settlement	-	-	-	-	-	-	1,839	8,349	8,236	36
Miscellaneous revenue	4,848	5,483	5,360	6,327	3,921	5,695	6,552	6,040	6,241	7,280
Special Items	-	-	-	-	-	25,813	-	-	-	-
Transfers	(357)	(508)	(806)	(643)	(194)	(339)	(1,661)	(937)	(1,653)	(1,663)
Total governmental activities	65,462	66,074	72,294	98,756	85,794	128,057	104,966	118,957	115,927	117,457
Business-type activities:										
Unrestricted investment earnings	18	3	2	1	1	1	2	-	-	-
Transfers	357	508	806	643	194	339	1,661	937	1,653	1,663
Transfer of operations	-	-	-	-	-	-	-	1,905	-	-
Total business-type activities	375	511	808	644	195	340	1,663	2,842	1,653	1,663
Total primary government	\$ 65,837	\$ 66,585	\$ 73,102	\$ 99,400	\$ 85,989	\$ 128,397	\$ 106,629	\$ 121,799	\$ 117,580	\$ 119,120
<b>Change in Net Position</b>										
Governmental activities	\$ 17,563	\$ 14,899	\$ 21,080	\$ 24,080	\$ 47,401	\$ 85,755	\$ 52,671	\$ 70,043	\$ 67,417	\$ 100,168
Business-type activities	586	780	961	825	330	404	1,868	3,182	1,054	1,099
Total primary government	\$ 18,149	\$ 15,679	\$ 22,041	\$ 24,905	\$ 47,731	\$ 86,159	\$ 54,539	\$ 73,225	\$ 68,471	\$ 101,267

2009 through 2012 change in net position is not comparable to 2013 and subsequent years due to the adoption of GASB 61.

# CHEROKEE NATION

## GOVERNMENTAL ACTIVITIES - TAX REVENUES BY SOURCE

### LAST TEN FISCAL YEARS

(Dollars in Thousands)

---

<u>Year</u>	<u>Motor Fuel Tax</u>	<u>Motor Vehicle Tax</u>	<u>Tobacco Tax</u>	<u>Sales Tax</u>	<u>Total</u>
2018	\$ 9,038	\$ 15,867	\$ 11,831	\$ 4,616	\$ 41,352
2017	8,488	15,074	12,254	4,106	39,922
2016	8,209	14,680	13,505	3,752	40,146
2015	8,008	13,638	14,217	3,654	39,517
2014	7,733	11,654	13,466	3,506	36,359
2013	7,615	9,641	3,631	3,363	24,250
2012	7,435	8,960	3,943	3,111	23,449
2011	7,543	8,441	3,990	2,905	22,879
2010	7,256	7,707	4,194	2,314	21,471
2009	7,514	7,400	5,312	1,610	21,836

**CHEROKEE NATION**

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

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General Fund										
Reserved	\$46,895	\$ 46,973	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Unreserved	21,674	14,636	-	-	-	-	-	-	-	-
Restricted	-	-	39,447	41,777	45,286	47,233	52,602	57,932	62,710	68,432
Committed	-	-	6,353	11,548	6,012	8,581	10,042	7,953	8,113	8,568
Assigned	-	-	11,327	10,731	3,645	17,252	15,274	8,265	10,443	14,792
Unassigned	-	-	6,234	21,874	10,298	22,056	16,330	26,922	18,058	23,412
Total general fund	<u>\$68,569</u>	<u>\$ 61,609</u>	<u>\$63,361</u>	<u>\$85,930</u>	<u>\$65,241</u>	<u>\$95,122</u>	<u>\$94,248</u>	<u>\$101,072</u>	<u>\$ 99,324</u>	<u>\$115,204</u>
All Other Governmental Funds										
Reserved	\$59,642	\$102,399 *	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Nonspendable	-	-	11,793	11,734	11,704	11,763	11,895	12,516	12,406	12,697
Restricted	-	-	75,852	46,771	47,629	43,724	31,303	30,556	49,544	71,914
Assigned	-	-	9,796	16,449	19,152	11,917	9,634	4,853	-	-
Unassigned	-	-	-	-	-	-	-	-	(4,608)	(2,149)
Total all other governmental funds	<u>\$59,642</u>	<u>\$102,399</u>	<u>\$97,441</u>	<u>\$74,954</u>	<u>\$78,485</u>	<u>\$67,404</u>	<u>\$52,832</u>	<u>\$ 47,925</u>	<u>\$ 57,342</u>	<u>\$ 82,462</u>

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

2009 and 2010 fund balances are not comparable to 2011 and subsequent years due to the adoption of GASB 54.

**CHEROKEE NATION**

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS**

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

*(modified accrual basis of accounting)*

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Revenues</b>										
Intergovernmental	\$255,401	\$289,094	\$285,686	\$285,150	\$284,143	\$290,204	\$300,277	\$318,043	\$317,121	\$334,956
Property rentals	4,225	4,432	4,136	4,255	691	956	801	895	957	1,029
Motor fuel tax revenues	7,514	7,256	7,543	7,435	7,615	7,733	8,008	8,209	8,488	9,038
Tax, license and fees	17,382	17,840	18,840	19,799	20,490	32,456	35,367	35,923	35,702	37,009
Interest	3,013	2,784	2,129	1,738	1,552	1,336	1,262	1,484	2,036	3,910
Trust fund income	100	101	105	127	96	21	-	-	-	-
Litigation settlement	-	-	-	-	-	-	1,839	8,349	-	8,272
Dividends from component units	26,444	26,429	30,074	56,806	44,109	47,392	45,448	50,139	49,444	55,983
Third party revenues	53,868	60,571	72,077	74,743	82,250	94,175	105,414	106,161	128,154	142,670
Income from HACN	5,851	1,425	1,500	1,945	-	-	-	-	-	-
Other	7,546	8,791	9,686	8,929	8,488	9,513	12,679	12,127	14,645	14,542
<b>Total revenues</b>	<b>381,344</b>	<b>418,723</b>	<b>431,776</b>	<b>460,927</b>	<b>449,434</b>	<b>483,786</b>	<b>511,095</b>	<b>541,330</b>	<b>556,547</b>	<b>607,409</b>
<b>Expenditures</b>										
Tribal Government	28,270	28,105	28,518	27,259	26,634	25,093	26,532	29,421	29,679	31,806
Health Services	177,697	201,773	220,201	236,307	246,947	259,612	289,789	293,368	305,159	324,510
Education Services	45,972	53,455	51,893	52,866	55,982	59,587	64,426	68,420	67,286	66,540
Human Services	36,214	37,625	38,315	37,829	39,761	40,738	42,514	45,167	46,725	48,435
Community Services	66,138	74,971	67,109	67,289	71,351	81,932	84,513	84,919	80,008	78,817
Debt service										
Principal	5,003	2,148	3,710	3,630	3,525	3,475	3,555	2,400	13,760	1,600
Interest	1,498	1,251	1,699	1,567	1,435	1,301	1,168	1,058	1,129	2,385
Capital outlay	9,958	7,489	22,853	33,620	20,797	17,996	12,386	16,217	36,270	82,424
<b>Total expenditures</b>	<b>370,750</b>	<b>406,817</b>	<b>434,298</b>	<b>460,367</b>	<b>466,432</b>	<b>489,734</b>	<b>524,883</b>	<b>540,970</b>	<b>580,016</b>	<b>636,517</b>
Excess (deficiency) of revenues over expenditures	10,594	11,906	(2,522)	560	(16,998)	(5,948)	(13,788)	360	(23,469)	(29,108)
<b>Other Financing Sources (Uses)</b>										
Issuance of long-term debt	-	24,000	-	-	-	-	-	2,511	32,660	71,700
Insurance recoveries	273	399	122	165	37	278	102	212	159	75
Transfers in	9,957	21,191	8,587	18,434	19,521	10,772	6,878	8,760	19,692	16,083
Transfers out	(10,402)	(21,699)	(9,393)	(19,077)	(19,718)	(11,162)	(8,638)	(9,926)	(21,373)	(17,750)
<b>Total other financing sources (uses)</b>	<b>(172)</b>	<b>23,891</b>	<b>(684)</b>	<b>(478)</b>	<b>(160)</b>	<b>(112)</b>	<b>(1,658)</b>	<b>1,557</b>	<b>31,138</b>	<b>70,108</b>
Special Item:										
Proceeds from settlement	-	-	-	-	-	24,860	-	-	-	-
<b>Net change in fund balances</b>	<b>\$ 10,422</b>	<b>\$ 35,797</b>	<b>\$ (3,206)</b>	<b>\$ 82</b>	<b>\$ (17,158)</b>	<b>\$ 18,800</b>	<b>\$ (15,446)</b>	<b>\$ 1,917</b>	<b>\$ 7,669</b>	<b>\$ 41,000</b>
Debt service as a percentage of noncapital expenditures	1.80%	0.85%	1.31%	1.22%	1.11%	1.01%	0.92%	0.66%	2.74%	0.72%



# CHEROKEE NATION

## GOVERNMENTAL ACTIVITIES - MOTOR VEHICLE TAX REGISTRATIONS LAST TEN FISCAL YEARS

---

<u>Year</u>	<u>Motor Vehicle Registrations</u>	<u>Boat/ Motor Registrations</u>	<u>Total All Registrations</u>
2018	39,888	1,556	41,444
2017	40,234	1,535	41,769
2016	37,835	1,573	39,408
2015	35,946	1,299	37,245
2014	29,507	1,188	30,695
2013	23,318	941	24,259
2012	22,192	912	23,104
2011	21,203	771	21,974
2010	19,322	651	19,973
2009	18,300	593	18,893

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		Litigation Settlement	Miscellaneous	Total
									Component	from Units			
2018	\$ 214,886	\$ 333,446	\$ 1,141	\$ 9,038	\$ 15,867	\$ 16,447	\$ 11,292	\$ 3,177	\$ 55,983	\$ 36	\$ 7,280	\$ 668,593	
2017	174,521	315,952	7,347	8,488	15,074	16,360	12,122	1,615	49,444	8,236	6,241	615,400	
2016	159,714	311,972	17,046	8,209	14,680	17,257	14,494	726	50,139	8,349	6,040	608,626	
2015	141,069	296,053	36,954	8,008	13,638	17,871	12,740	533	45,448	1,839	6,552	580,705	
2014	151,284	283,024	2,054	7,733	11,654	16,972	12,503	635	47,392	-	5,695	538,946	
2013	136,750	277,312	5,036	7,615	9,641	6,994	12,844	864	44,109	-	3,921	505,086	
2012	78,989	283,446	366	7,435	8,960	7,054	11,676	1,142	56,806	-	6,327	462,201	
2011	75,773	283,563	1,369	7,543	8,441	6,895	13,394	1,395	30,074	-	5,360	433,807	
2010	64,882	289,034	989	7,256	7,707	6,508	11,143	2,059	26,429	-	5,483	421,490	
2009	58,471	258,558	1,994	7,514	7,400	6,922	10,398	2,311	26,444	-	4,848	384,860	

2009 through 2012 revenue sources are not comparable to 2013 and subsequent years due to the adoption of GASB 61.

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

# CHEROKEE NATION

## GENERAL GOVERNMENTAL EXPENSES BY FUNCTION (GAAP BASIS)

LAST TEN FISCAL YEARS (Dollars in Thousands)

<u>Fiscal Year</u>	<u>Tribal Government</u>	<u>Health Services</u>	<u>Education Services</u>	<u>Human Services</u>	<u>Community Services</u>	<u>Interest on Long Term Debt</u>	<u>Title VI</u>	<u>Tsa-La-Gi Apartments</u>	<u>CN Sanitary Landfill</u>	<u>EDTA</u>	<u>Total</u>
2018	\$ 33,171	\$ 333,037	\$ 66,958	\$48,750	\$ 79,903	\$ 2,385	\$ 33	\$ 655	\$ 2,184	\$ 250	\$ 567,326
2017	41,010	311,892	65,666	46,048	78,290	943	45	651	2,329	55	546,929
2016	32,382	303,202	68,678	45,461	85,626	1,046	51	523	320	17	537,306
2015	27,535	300,161	65,059	42,996	88,575	1,140	57	488	-	155	526,166
2014	26,464	266,606	59,753	40,917	82,796	1,274	70	488	-	232	478,600
2013	28,885	256,465	57,076	40,432	72,344	1,414	124	492	-	124	457,356
2012	29,428	244,547	54,061	38,575	68,391	1,569	190	473	16	46	437,296
2011	29,678	224,634	52,348	38,588	63,814	1,722	302	459	154	67	411,766
2010	29,841	206,013	54,085	37,932	75,600	1,309	469	387	128	47	405,811
2009	29,323	179,806	46,200	36,231	72,334	1,525	826	393	-	73	366,711

## CHEROKEE NATION

### OUTSTANDING DEBT BY TYPE

LAST TEN FISCAL YEARS (Dollars in Thousands)

Fiscal Year	Governmental Activities			Business-type Activities		Total Primary Government	Percentage of Personal Income*	Per each one*
	Bonds	Term Loans	Capital Leases	Term Loans	Capital Leases			
2018	\$ -	\$117,804	\$ -	\$ 1,399	\$ 584	\$ 119,787	2.83%	\$ 1,066
2017	-	47,704	-	3,081	802	51,587	1.27%	457
2016	12,160	16,644	-	4,651	1,016	34,471	0.75%	283
2015	12,960	15,733	-	6,432	-	35,125	0.89%	319
2014	14,915	17,333	-	8,287	-	40,535	1.08%	378
2013	16,790	18,933	-	9,976	-	45,699	1.28%	433
2012	18,585	20,925	130	13,349	-	52,989	1.59%	514
2011	20,310	23,098	435	15,301	-	59,144	1.50%	495
2010	21,970	25,406	729	18,169	-	66,274	1.86%	566
2009	23,565	2,051	1,295	22,290	-	49,201	1.38%	420

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

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

## CHEROKEE NATION

### PLEDGED-REVENUE COVERAGE

LAST TEN FISCAL YEARS (Dollars in Thousands)

		Health Revenue Bonds						
Fiscal Year		Beginning	Revenues	Less:	Ending	Debt Service*		Coverage
		Fund Balance		Expenses	Fund Balance	Principal	Interest	
2018	**	\$ 38,653	\$ 334,945	\$ 311,643	\$ 61,955	\$ -	\$ -	-
2017	**	22,843	296,354	280,544	38,653	-	-	-
2016		24,083	267,448	268,688	22,843	800	577	16.59
2015		34,877	261,698	272,492	24,083	1,955	636	9.29
2014		36,545	253,210	254,878	34,877	1,875	718	13.45
2013		34,076	227,368	224,899	36,545	1,795	797	14.10
2012		45,581	216,326	227,831	34,076	1,725	871	13.13
2011		43,820	211,620	209,859	45,581	1,660	940	17.53
2010		39,572	200,767	196,519	43,820	1,595	1,007	16.84
2009		14,014	183,734	158,176	39,572	4,706	1,480	6.40

Note: \* Debt service coverage is based upon fund balance generated from Health Care System Operations.  
 \*\* Bonds were called in FY 2017, therefore, coverage can only be reported on years prior to the call of the bonds.

# CHEROKEE NATION

## DEMOGRAPHIC AND ECONOMIC STATISTICS LAST TEN FISCAL YEARS

---

<u>Year</u>	<u>Population**</u>	<u>Personal Income*** (Dollars in Thousands)</u>	<u>Per Each One Personal Income****</u>	<u>Unemployment Rate*****</u>
2018 *	1,208,644	\$ 4,239,328	\$ 37,741	3.1
2017 *	1,205,109	4,061,803	36,007	4.3
2016 *	1,199,601	4,615,769	37,879	5.3
2015 *	1,188,464	3,947,473	35,795	4.4
2014 *	1,180,608	3,746,498	34,926	4.2
2013 *	1,172,064	3,569,576	33,789	5.4
2012 *	1,168,624	3,340,215	32,406	5.2
2011 *	1,167,294	3,947,252	33,015	5.9
2010 *	1,155,961	3,755,250	31,745	6.9
2009 *	1,144,628	3,572,586	30,524	6.9

Source: Oklahoma State Data Center - Oklahoma Department of Commerce  
US Department of Labor: Bureau of Labor Statistics Data

Notes:

\* Estimate projected based on previous trends by Cherokee Nation Financial Resources Department

\*\* Population data for Counties within the Cherokee Nation Jurisdictional Boundaries

\*\*\* Personal income information from the Bureau of Economic Analysis

\*\*\*\* Per each one personal income information from Oklahoma State Data Center - OK Dept of Commerce

\*\*\*\*\* Unemployment Rate September period rate from the Bureau of Labor Statistics Data



## CHEROKEE NATION

### PRINCIPAL EMPLOYERS

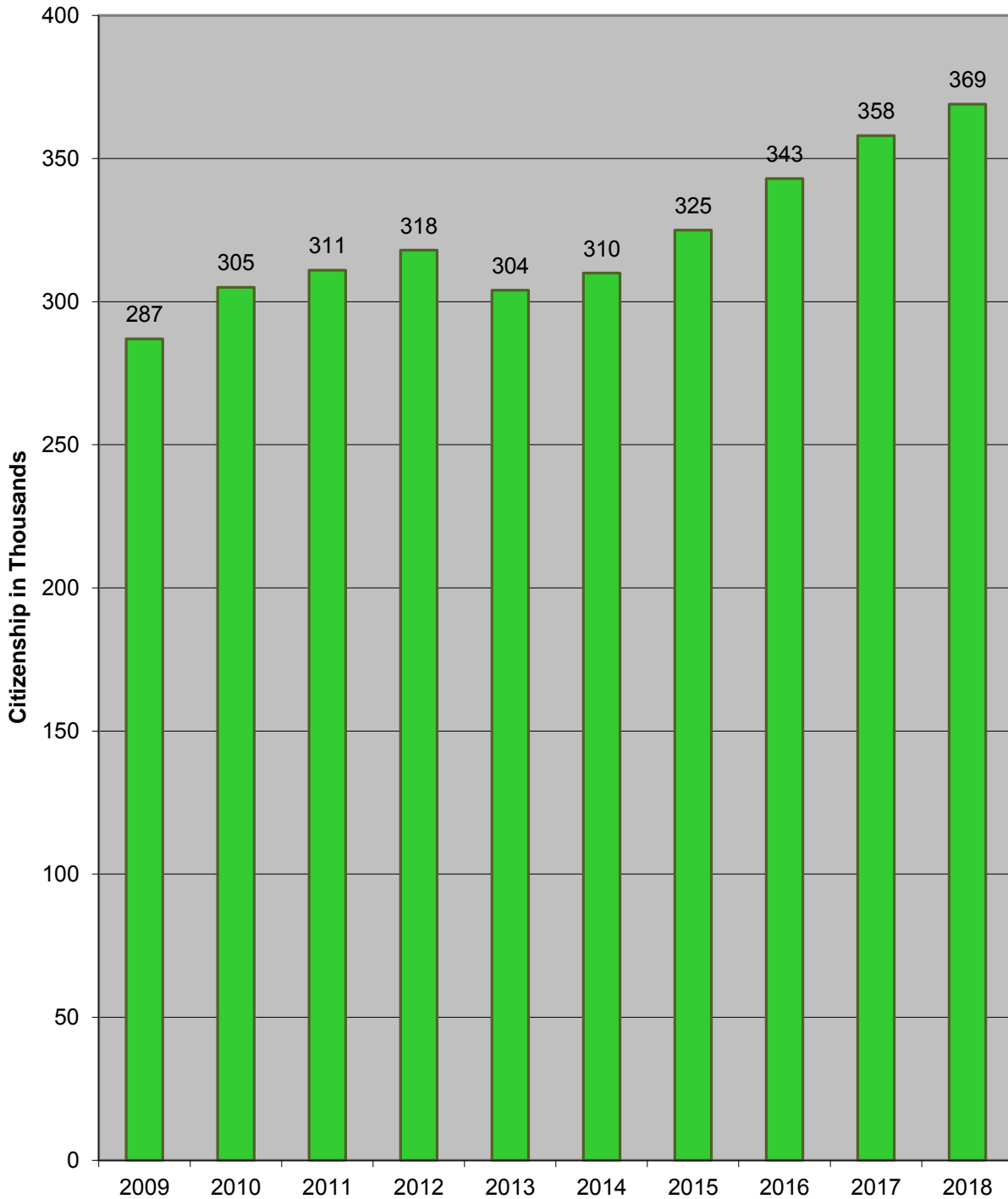
#### CURRENT YEAR AND NINE YEARS AGO

Employer	2009			2018		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
American Airlines & AA	7,000	2	11.94%	5,050	2	18.20%
Cherokee Nation *	5,900	3	10.06%	11,000	1	39.64%
Claremore City Schools	600	8	1.02%	-	-	0.00%
Conoco Phillips	3,750	4	6.39%	-	-	0.00%
IC of Oklahoma LLC/IC Bus	-	-	0.00%	1,250	7	4.50%
Macy's Corporate Services	-	-	0.00%	1,650	4	5.95%
Melton Truck Lines Inc.	-	-	0.00%	1,450	5	5.23%
Labinal Inc	600	9	1.02%	-	-	0.00%
NORDAM Group Inc	1,900	5	3.24%	-	-	0.00%
Northeastern Oklahoma State University	1,600	6	2.74%	1,050	10	3.78%
Owasso Independent School Dist #1-11	-	-	0.00%	1,250	8	4.50%
Reasors LLC/Reasor's Stores	-	-	0.00%	2,350	3	8.47%
State of Oklahoma	36,000	1	61.38%	-	-	0.00%
Spirit Aerosystems/Mid-Western Aircraft	-	-	0.00%	1,250	9	4.50%
Tahlequah School District	600	10	1.02%	-	-	0.00%
Whirlpool Corporation	700	7	1.19%	1,450	6	5.23%
	<u>58,650</u>		<u>100%</u>	<u>27,750</u>		<u>100%</u>

Source: Oklahoma Department of Commerce, Avention

\*Including component units

### CHEROKEE NATION Tribal Citizenship



Source: Tribal Registration Department

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

## CHEROKEE NATION

### TRIBAL CITIZENSHIP BY DISTRICT LAST TEN FISCAL YEARS

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>District*</b>										
Cherokee	17,603	18,688	19,120	19,830	20,443	20,368	21,912	22,278	23,062	24,193
Craig	7,137	7,427	7,431	7,515	7,823	7,697	8,058	8,320	8,848	8,612
Delaware	10,317	10,946	11,311	11,587	12,657	12,783	13,330	14,113	14,526	14,977
Keeler	13,991	14,666	14,698	14,947	15,300	15,055	15,931	16,638	17,454	18,210
Mayes	11,231	11,843	12,069	12,284	11,987	11,367	11,754	12,346	12,674	12,828
Sequoyah	13,247	13,769	13,893	14,189	14,204	13,945	14,583	15,109	15,550	20,465
Three Rivers	15,710	16,478	16,594	16,832	8,642	9,027	8,718	9,259	9,459	9,501
Trail of Tears	12,286	12,877	13,110	13,318	12,987	13,075	13,726	14,043	14,321	14,425
Will Rogers	8,396	9,270	9,755	10,237	15,266	15,607	16,704	23,022	17,648	18,251
Other	178,051	189,011	193,271	197,088	184,895	191,474	199,946	207,934	224,530	227,591
<b>Total Citizenship</b>	<u>287,969</u>	<u>304,975</u>	<u>311,252</u>	<u>317,827</u>	<u>304,204</u>	<u>310,398</u>	<u>324,662</u>	<u>343,062</u>	<u>358,072</u>	<u>369,053</u>

Source: Tribal Registration Department

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

## CHEROKEE NATION

### TRIBAL LAND BASE (ACRES) BY COUNTY FOR THE YEAR ENDED SEPTEMBER 30, 2018

County	Tribal Land	Government Land	Restricted Individual	Total Acres
<u>Cherokee Nation:</u>				
Oklahoma:				
Adair	14,962	19	10,271	25,252
Cherokee	2,201	97	9,439	11,737
Craig	327	-	1,843	2,170
Delaware	25,094	10	6,503	31,607
McIntosh	-	-	596	596
Mayes	373	10	5,364	5,747
Muskogee	500	-	2,342	2,842
Nowata	38	-	610	648
Ottawa	-	-	79	79
Rogers	536	10	801	1,347
Sequoyah	3,168	40	5,623	8,831
Tulsa	47	-	204	251
Wagoner	-	-	225	225
Washington	240	-	1,719	1,959
Arkansas Riverbed	14,715	-	-	14,715
<u>Counties Outside Territorial Boundaries:</u>				
Oklahoma:				
Kay	4,230	-	-	4,230
Atoka	10	-	-	10
Choctaw	40	-	-	40
Pittsburg	10	-	-	10
Stephens	80	-	-	80
Texas:				
Red River	630	-	-	630
Dallas	5	-	-	5
Paris	66	-	-	66
Total	<u>67,272</u>	<u>186</u>	<u>45,619</u>	<u>113,077</u>

Source: Cherokee Nation Real Estate Services

## CHEROKEE NATION

### PRIMARY GOVERNMENT EMPLOYEES BY FUNCTION

#### LAST TEN FISCAL YEARS

Regular full-time employees only

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
<b>Function:</b>										
Tribal Government	528	466	481	472	489	509	576	583	602	569
Health Services	924	1,039	1,112	1,198	1,270	1,315	1,392	1,489	1,519	1,557
Education Services	427	474	460	444	442	444	433	430	422	421
Human Services	304	313	322	328	328	335	339	365	360	346
Community Services	362	441	432	428	296	304	297	271	238	230
<b>Total</b>	<u>2,545</u>	<u>2,733</u>	<u>2,807</u>	<u>2,870</u>	<u>2,825</u>	<u>2,907</u>	<u>3,037</u>	<u>3,138</u>	<u>3,141</u>	<u>3,123</u>

Source: Financial Resources Department

**CHEROKEE NATION**

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

<b>Function/Program</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
<b>Health Services</b>										
Ambulatory care visits	307,491	328,574	363,112	369,957	382,614	413,862	423,902	488,074	568,663	552,475
Dental patient visits	37,786	43,914	30,806	55,402	61,274	68,637	74,604	80,996	94,287	71,062
Pharmacy patient visits	119,075	247,299	307,394	379,191	435,855	484,595	480,390	609,490	649,103	672,726
Pharmacy prescription filled	672,905	1,086,505	1,461,526	1,678,692	1,828,359	1,927,395	1,961,582	1,686,360	1,716,535	2,405,316
<b>Education Services</b>										
Higher Education applications received	2,512	2,980	3,158	3,828	3,287	3,846	4,272	4,963	5,109	5,617
Higher Education applications funded	2,141	2,768	3,033	2,447	3,065	3,430	3,805	4,167	4,325	4,537
Head Start students	328	384	344	324	305	145	182	152	146	145
Immersion Class students	49	47	56	100	105	117	104	101	130	134
Sequoyah High School students	394	395	342	284	379	375	366	374	388	367
<b>Human Services</b>										
Child Care children served through subsidy	4,537	3,333	3,724	3,230	3,040	3,150	2,430	2,541	2,715	2,563
Child Care contracted providers	636	725	614	622	546	404	529	529	504	428
Child Care technical assistance calls and visits	5,614	3,961	2,886	1,967	1,965	1,799	1,001	925	941	907
Child Care monitoring visits to caregivers	957	1,031	1,020	1,038	1,001	1,000	982	1,194	1,320	1,274
Food Distribution - individuals served	130,253	121,788	104,926	110,394	109,579	127,757	133,190	139,211	135,602	130,033
Food Distribution - households served	51,716	49,640	52,087	47,582	47,428	55,414	59,339	62,505	62,173	60,859
Elder Service Advocacy individuals served	642	640	572	252	279	329	703	1,311	1,504	1,675
<b>Community Services</b>										
Roads/bridges project miles completed	58.22	133.15	50.95	72.82	51.49	68.84	71.77	77.81	78.19	56.56
Transit rides	438	3,548	15,580	38,189	44,912	67,346	109,132	93,446	102,148	107,712
Families served through rental assistance	1,546	1,549	1,366	1,929	2,189	1,880	2,673	2,554	1,939	1,727
Families subsidized in Title VI units	295	274	274	268	238	240	234	221	197	195
Rehabilitation of privately owned homes	209	315	346	379	609	629	610	295	477	536
Acquired or constructed individual homes for low-income families	12	14	9	40	38	29	158	277	161	56
Businesses funded through Commerce programs	21	28	53	20	28	18	24	41	46	36
Participants enrollments in IDA/YIDA	30	104	131	130	146	210	453	465	447	500

Source: Departments/programs as listed

**CHEROKEE NATION**

**CAPITAL ASSET UTILIZATION BY FUNCTION**

**PRIMARY GOVERNMENT**

**LAST TEN FISCAL YEARS**

**(Net of Depreciation, Dollars in Thousands)**

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
<b>Governmental activities:</b>										
Tribal Government	\$41,269	\$ 40,956	\$ 42,732	\$ 43,950	\$ 49,706	\$ 52,295	\$ 52,873	\$ 65,734	\$ 98,370	\$174,880
Health Services	45,261	46,134	60,260	84,086	88,522	95,747	131,097	136,691	134,891	129,037
Education Services	9,622	9,968	10,323	10,124	10,067	9,698	9,302	8,963	8,661	8,286
Human Services	902	1,173	1,111	1,502	6,205	6,152	5,891	5,661	5,432	5,342
Community Services	2,715	3,336	5,137	6,947	4,555	4,288	5,192	4,442	3,396	3,887
Governmental activities, net	<u>\$99,769</u>	<u>\$101,567</u>	<u>\$119,563</u>	<u>\$146,609</u>	<u>\$159,055</u>	<u>\$168,180</u>	<u>\$204,355</u>	<u>\$221,491</u>	<u>\$250,750</u>	<u>\$321,432</u>
<b>Business-type activities:</b>										
Enterprise Funds	\$ 548	\$ 645	\$ 588	\$ 533	\$ 483	\$ 435	\$ 386	\$ 2,217	\$ 1,706	\$ 1,231
Business-type activities, net	<u>\$ 548</u>	<u>\$ 645</u>	<u>\$ 588</u>	<u>\$ 533</u>	<u>\$ 483</u>	<u>\$ 435</u>	<u>\$ 386</u>	<u>\$ 2,217</u>	<u>\$ 1,706</u>	<u>\$ 1,231</u>

Source: Financial Resources Department



**CHEROKEE NATION**

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

District*	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Cherokee	4,421	4,622	4,681	4,882	5,025	4,733	4,248	4,833	4,930	4,671
Craig	1,361	1,378	1,341	1,325	1,341	1,314	1,312	1,403	1,319	1,287
Delaware	2,310	2,336	2,372	2,524	2,689	2,558	2,483	2,653	2,745	2,668
Keeler	1,916	1,871	1,856	2,271	2,993	5,468	5,677	6,537	6,803	7,079
Mayes	2,126	2,199	2,321	2,387	2,411	2,456	2,489	2,554	2,619	2,668
Sequoyah	2,101	2,109	2,158	2,540	2,534	2,518	2,475	2,584	2,665	2,580
Three Rivers	2,713	2,851	2,936	2,850	2,948	4,007	3,797	4,087	3,975	3,951
Trail of Tears	2,403	2,504	2,466	2,337	2,576	2,614	2,492	2,589	2,640	2,584
Will Rogers	2,303	2,598	2,574	2,760	2,812	2,814	2,835	2,930	3,018	2,974
<b>Total Cherokee Students</b>	<u>21,654</u>	<u>22,468</u>	<u>22,705</u>	<u>23,876</u>	<u>25,329</u>	<u>28,482</u>	<u>27,808</u>	<u>30,170</u>	<u>30,714</u>	<u>30,462</u>

Counties included in districts:

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

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

Source: MVT apportionment