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CHEROKEE NATION®

Tahlequah, Oklahoma



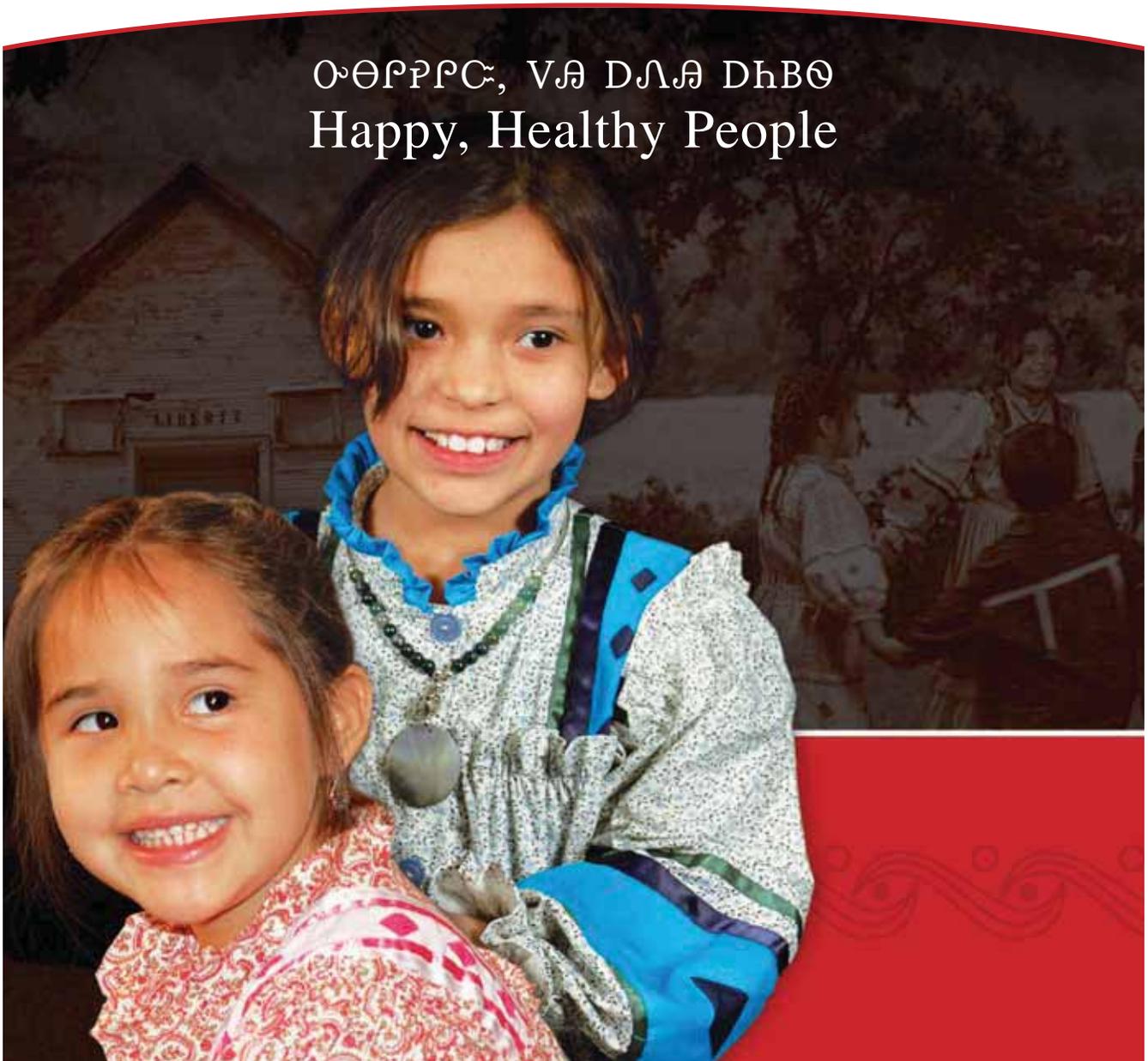
Comprehensive Annual  
Financial Report

Year Ending September 30, 2010



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CHEROKEE NATION®  
Tahlequah, Oklahoma

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Happy, Healthy People



# Comprehensive Annual Financial Report

Year Ending September 30, 2010

Prepared by Financial Resources Group

CHEROKEE NATION  
 COMPREHENSIVE ANNUAL FINANCIAL REPORT  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010

TABLE OF CONTENTS

I. INTRODUCTORY SECTION

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

II. FINANCIAL SECTION

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

A. BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS.....	26
STATEMENT OF ACTIVITIES.....	27

FUND FINANCIAL STATEMENTS

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

NOTES TO BASIC FINANCIAL STATEMENTS.....	38
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## TABLE OF CONTENTS (CONTINUED)

### B. OTHER SUPPLEMENTARY INFORMATION

NONMAJOR GOVERNMENTAL FUNDS	
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS.....	84
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN	
FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS.....	85
NONMAJOR ENTERPRISE FUNDS	
COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS.....	86
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND	
NET ASSETS - NONMAJOR ENTERPRISE FUNDS.....	87
COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS.....	88
INTERNAL SERVICE FUNDS	
COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS.....	89
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND	
NET ASSETS - INTERNAL SERVICE FUNDS.....	90
COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS.....	91
COMPONENT UNITS	
COMBINING STATEMENT OF NET ASSETS - CHEROKEE NATION BUSINESSES, LLC.....	92
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN	
NET ASSETS (DEFICIT) - CHEROKEE NATION BUSINESSES, LLC.....	93
BUDGETARY INFORMATION	
SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -	
BUDGET AND ACTUAL (GAAP BASIS) - ENTERPRISE FUNDS.....	94

### III. STATISTICAL SECTION

SCHEDULE OF NET ASSETS BY COMPONENT.....	95
CHANGES IN NET ASSETS.....	96
GOVERNMENTAL ACTIVITIES - TAX REVENUES BY SOURCE.....	97
FUND BALANCES, GOVERNMENTAL FUNDS.....	98
CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS.....	99
GOVERNMENTAL ACTIVITIES - MOTOR VEHICLE TAX RECEIPTS.....	100
GENERAL GOVERNMENTAL REVENUES BY SOURCE (GAAP BASIS).....	101
GENERAL GOVERNMENTAL EXPENSES BY FUNCTION (GAAP BASIS).....	102
OUTSTANDING DEBT BY TYPE.....	103
PLEGGED-REVENUE COVERAGE.....	104
DEMOGRAPHIC AND ECONOMIC STATISTICS.....	105
PRINCIPAL EMPLOYERS.....	106
TRIBAL CITIZENSHIP GROWTH.....	107
TRIBAL CITIZENSHIP BY DISTRICT.....	108
TRIBAL LAND BASE (ACRES) BY COUNTY.....	109
GOVERNMENT EMPLOYEES BY FUNCTION.....	110
OPERATING INDICATORS BY FUNCTION.....	111
CAPITAL ASSET UTILIZATION BY FUNCTION, PRIMARY GOVERNMENT.....	112
CHEROKEE STUDENTS BY DISTRICT.....	113



The Cherokee Nation’s mission is “gadugi” – working together as individuals, families and communities for a better quality of life for this and future generations by promoting confidence, the tribal culture and an effective, sovereign government. Cherokees have always understood that to accomplish our goals we must learn. A thirst for learning is a part of who we are – the most important thing to be built after the removal to Indian Territory was a school, the first educational institution for women west of the Mississippi. We value and encourage lifelong learning. The historic pictures in this Comprehensive Annual Financial Report represent the Cherokee interest in education.

# INTRODUCTORY SECTION

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CHEROKEE NATION®

Comprehensive Annual Financial Report



GWYJ DBF  
**CHEROKEE NATION™**  
P.O. Box 948 • Tahlequah, OK 74465-0948 • (918) 453-5000

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Chad "Corntassel" Smith  
Principal Chief  
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Joe Grayson, Jr.  
Deputy Principal Chief

March 25, 2011

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

We are pleased to submit the Comprehensive Annual Financial Report of the Cherokee Nation (the "Nation" or "Tribe") for the fiscal year ended September 30, 2010. Accountability for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the Nation. We believe the data presented is accurate in all material aspects, and fairly presents the financial position and results of operations for the year ended September 30, 2010.

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

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.

## **Organization of the Government**

The Nation is the federally recognized government of the Cherokee people and has sovereign status granted by treaty and law. The Nation is the second largest federally recognized tribe in the United States and is located within the 14 counties of northeastern Oklahoma. The boundary runs northerly and southeasterly from Tulsa, Oklahoma to the Kansas and Arkansas state borders. The Nation's jurisdictional area—which consists of 9,234 square miles and includes all of nine counties and portions of five other counties—was established following the historical boundaries of the Cherokee Nation after the Treaty of 1866.

The Cherokee Nation has a tripartite form of government designed after the original democratic form of government of the Iroquois that was adopted by the United States. The Cherokee Constitution was amended by the Constitutional Convention in 1999 and ratified by a vote of the Cherokee citizens in 2003. This Constitution defines the distribution and separation of powers among the three branches of government. The three branches and their respective powers include the:

- (1) **Executive Branch** - The executive power is vested in the Principal Chief, currently Chadwick "Corntassel" Smith. The Principal Chief is responsible for the execution of the laws of the Cherokee Nation, establishment of tribal policy and delegation of authority, as is necessary for the administrative functions of the Cherokee Nation. The Principal Chief maintains an office at the W. W. Keeler Tribal Complex in Tahlequah (Cherokee County), Oklahoma. The

Deputy Chief, currently Joe Grayson, Jr., is empowered to act as directed by the Principal Chief.

- (2) **Legislative Branch** - The Legislature consists of seventeen (17) tribal council members, who are citizens of the Cherokee Nation. The Tribal Council is elected to four-year terms from the nine districts of the Cherokee Nation and two at-large members who represent citizens living outside the jurisdictional area. The Council elects a Speaker, currently Meredith A. Frailey and a Deputy Speaker, currently Cara Cowan-Watts. The role of the Tribal Council is to adopt legislation and to conduct other business in the best interest of the Cherokee people.
- (3) **Judicial Branch** - The Judicial Branch consists of the Supreme Court and the Cherokee Nation District Court. Supreme Court Justices are appointed by the Principal Chief and confirmed by the Tribal Council. The Chief Justice currently is Darrell R. Matlock. The primary responsibility of the Justices is to hear and resolve any disagreements arising under the provisions of the Constitution or any enactment of the Tribal Council. The District Court system hears all cases brought before it under jurisdiction of the Cherokee Nation Code Annotated, Title 20, Courts and Procedure.

Between 1907 and 1971, the President of the United States appointed the Principal Chief of the Cherokee Nation. Special Congressional legislation was enacted to restore elective rights to the Cherokee people and, in 1971 W. W. Keeler became the first elected Principal Chief of the Cherokee Nation under this legislation. In 1975, Ross O. Swimmer was elected to the office of the Principal Chief and was re-elected in 1979 and 1983. In December 1985, Ross O. Swimmer resigned as Principal Chief of the Nation to become the Assistant Secretary of the Department of Interior for the Bureau of Indian Affairs. The vacated office of the Principal Chief was devolved upon Wilma P. Mankiller, formerly Deputy Chief, for the remainder of the term, and she was elected to consecutive four-year terms in 1987 and 1991. Wilma Mankiller chose not to seek re-election in 1995. Joe Byrd was elected as Principal Chief in 1995. In 1999, Chad Smith was elected as Principal Chief. He was re-elected as Principal Chief in the 2003 and 2007 tribal elections and has continued his mission of improving services, increasing cultural awareness and increasing the resources for the betterment of the Cherokee Nation throughout 2010.

## **Government Services Provided**

The Executive Branch of the Nation is organized with the Principal Chief and the Deputy Principal Chief serving as the final authorities of the administrative operations of the Nation. The Constitution provides for a three member Cabinet, the Secretary of State, the Treasurer and the Secretary of Natural Resources. The Secretary of State is responsible for a variety of governmental functions including but not limited to the certification of petitions, referring amendments of the constitution to the people, and receipt of petitions, orders for initiatives, and oaths of office. The Treasurer provides oversight and direction for the Nation on all financial matters, including annual budgets, investment of funds, and financial reporting in conformance with Generally Accepted Accounting Principles (“GAAP”). The Secretary of Natural Resources advises the Chief on natural resource issues and works to advance the Nation’s top environmental strategic priorities. The Secretary of Natural Resources office is vacant.

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

in all civil actions wherein the Cherokee Nation is named as a party and shall have such other duties as the Council may prescribe by law. The Marshal's duties and authority are prescribed by law. The Marshal provides law enforcement within the jurisdiction of the Cherokee Nation.

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

These Teams are comprised of the following:

1. Direction Team
  - a. Communications
  - b. Government Relations
  - c. Strategy
2. Service Team
  - a. Career Services
  - b. Commerce Services
  - c. Community Services
  - d. Education Services
  - e. Health Services
  - f. Housing Services
  - g. Human Services
  - h. Leadership Services
3. Resource Team
  - a. Financial Resources
  - b. Government Resources
  - c. Human Resources
  - d. Information Systems
  - e. Management Resources

## **Reporting Entity**

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

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

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

## **Excluded Organizations**

During 2010, the following organizations did not meet the criteria for inclusion in the reporting entity and accordingly their financial operations are excluded from this report.

Cherokee Nation Education Foundation  
Cherokee National Historical Society

## **Financial Information**

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

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

As a part of the Nation's single audit, tests are made to determine the adequacy of the internal control structure, including that portion related to federal financial assistance programs, as well as to determine that the Nation has complied with applicable laws and regulations. The results of the Nation's single audit for the fiscal year ended September 30, 2010, are included in a separately issued Single Audit Report.

Budget - Title 62, §31-32 provides the legal level of budgetary control for the Cherokee Nation. The Executive and Finance Committee of the Council, upon direction of the Treasurer and with advisement from the Controller, shall formulate an annual appropriations bill. The bill shall contain the legal budgeted annual 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 assets. Cherokee Nation limits uses of funds to the availability of the sources of revenues.

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

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

## **Economic Outlook**

Since fiscal year 2002, the Cherokee Nation primary government has increased its total assets by approximately \$329,403,000 or 243%. This growth is aligned with our vision for the Cherokee Nation as stated in the Declaration of Designed Purpose. This vision states, “The Cherokee Nation shall achieve and maintain an enriching cultural identity, economic self-reliance, and a strong government.” The Nation’s long-term financial planning process utilizes a Strategic Budget Committee to ensure discretionary resources are used to support the vision of the Nation. The planning process encompasses the annual financial budget process, as well as long-term strategic planning for use of the Nation’s resources.

Through expansion of its component units, the Nation is working to establish a self-reliant economy for the citizens of the Nation. In addition to the expansion of component units, the Nation has been successful in partnering with local governments to attract new industries and create jobs within the Nation’s jurisdiction.

Long term financial planning has enabled the Nation to look beyond what it takes to just maintain services and cultivates looking to the future on how to promote traditional Cherokee families and values. Our departments are preparing their budgets and employees for the upcoming years to incorporate long term goals in order to meet the strategic initiatives of the Nation: Language, Jobs, and Community.

## **Use of the Report**

This report will be submitted to the Federal Clearing House and the National Business Center in compliance with the requirements of the Office of Management and Budget (“OMB”) Circular A-133 “Audits of States and Local Governments and Non-Profit Organizations.” Copies of the reports will also be submitted to elected officials of the Nation and various other agencies which require copies consistent with the administration of funding provided to the Nation under grants and contracts. Use of this report by the departments of the Nation is encouraged.

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

## **Certificate of Achievement**

The Government Finance Officers Association (“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, 2009. This was the ninth consecutive year that the Nation has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

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

### **Acknowledgements**

The preparation of the 2010 CAFR was an extremely complex task requiring the professional skills of the entire Financial Resources Group. We would like to express our gratitude to the Financial Resources Group for their dedication and hard work. We would also like to thank BKD, LLP, independent auditors for the Cherokee Nation, for their guidance and technical assistance in completing this CAFR.

Respectfully submitted,

Callie Catcher  
Treasurer

**Cherokee Nation  
Tribal Officials  
2010**

**EXECUTIVE BRANCH**

**Chadwick “Cornassel” Smith  
Principal Chief**

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

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**LEGISLATIVE BRANCH**

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

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

**Bill John Baker  
District 1  
Cherokee**

**Tina Glory-Jordan  
District 1  
Cherokee**

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

**Jody Fishinghawk  
District 2  
Trail of Tears**

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

**Janelle Lattimore-Fullbright  
District 3  
Sequoyah**

**Don Garvin  
District 4  
Three Rivers**

**Harley Buzzard  
District 5  
Delaware**

**Curtis Snell  
District 5  
Delaware**

**Chris Soap  
District 6  
Mayes**

**Buel Anglen  
District 8  
Oologah**

**Bradley Cobb  
District 8  
Oologah**

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

**Jack D. Baker  
At Large**

**Julia Coates  
At Large**

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**JUDICIAL BRANCH**

**Supreme Court**

**Darrell R. Matlock  
Chief Justice**

**Darrell R. Dowty  
Justice**

**James G. Wilcoxon  
Justice**

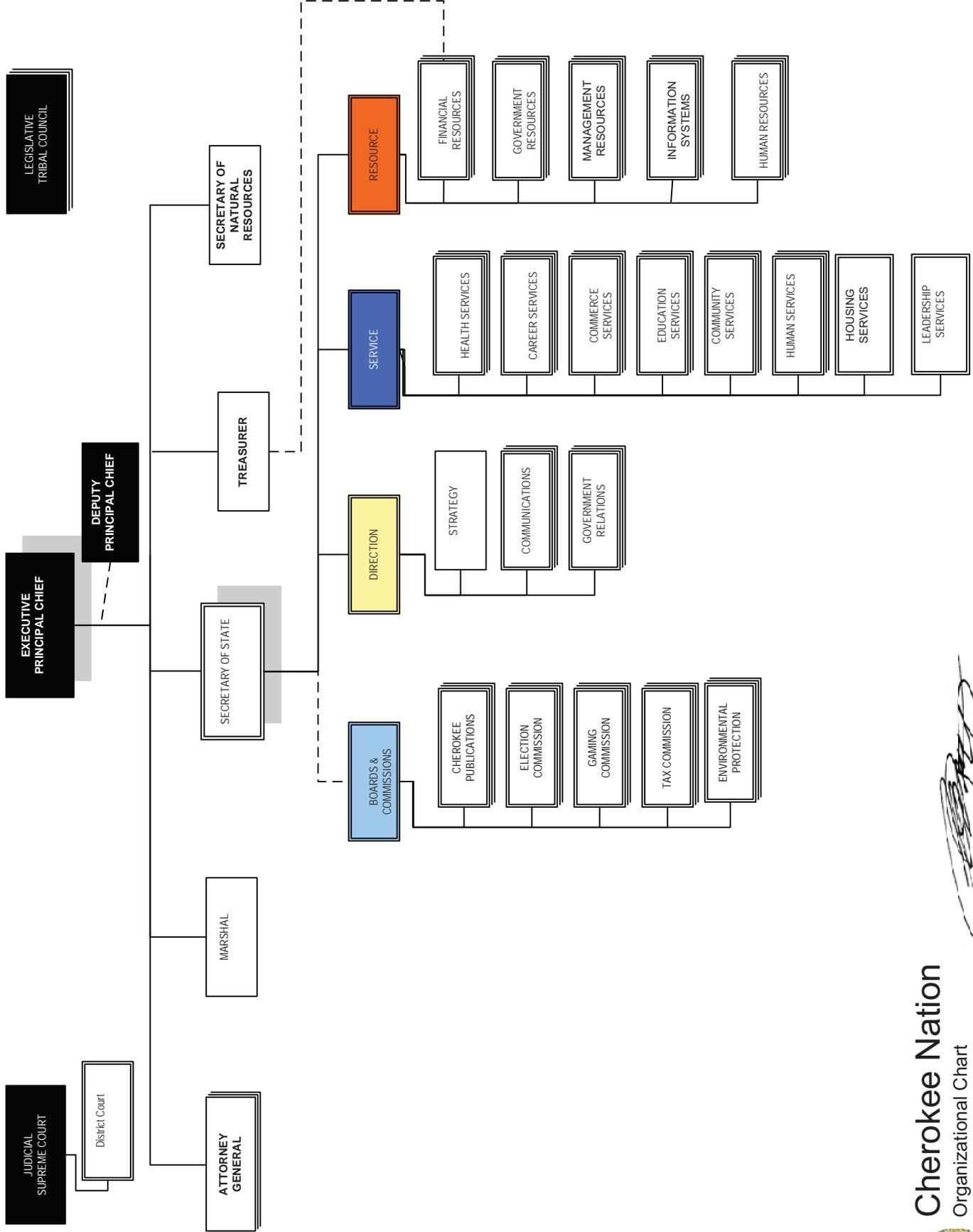
**Kyle B. Haskins  
Justice**

**Troy Wayne Poteete  
Justice**

**District Court**

**John Cripps  
Judge**

**Bart Fite  
Judge**



**Cherokee Nation**  
 Organizational Chart  
 September 30, 2010

# 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, 2009

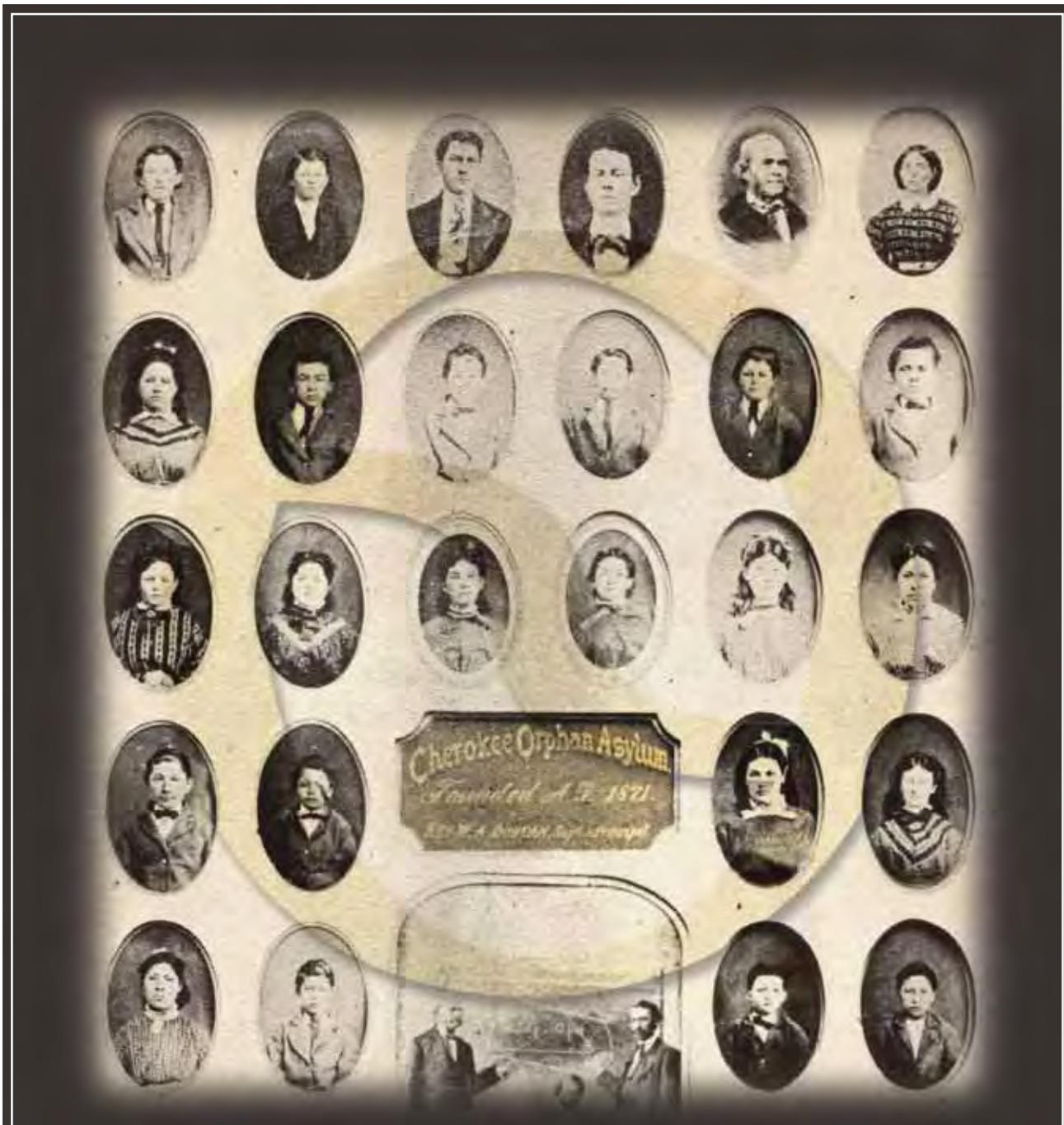
A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards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



President

Executive Director

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# FINANCIAL SECTION

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CHEROKEE NATION®

Comprehensive Annual Financial Report

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

The Principal Chief and Tribal Council  
Cherokee Nation  
Tahlequah, Oklahoma

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Cherokee Nation (the Nation) as of and for the year ended September 30, 2010, which collectively comprise the Nation's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Nation's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Housing Authority of the Cherokee Nation (HACN), the Cherokee Nation Comprehensive Care Agency (CNCCA) or Cherokee Nation Waste Management, LLC (CNWM), which are discretely presented component units of the Nation. The financial statements of HACN, CNCCA and CNWM, which collectively comprise 20% of total assets and 1% of total operating revenues of the aggregate discretely presented component units, were audited by other accountants whose reports have been furnished to us and our opinion, insofar as it relates to the amounts included for HACN, CNCCA and CNWM, is based solely on the reports of the other accountants.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other accountants provide a reasonable basis for our opinions.

As discussed in *Note 1*, in 2010, the Nation changed its method of accounting for derivative instruments by adopting Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*.

In our opinion, based on our audit and the reports of other accountants, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Cherokee Nation as of September 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Principal Chief and Tribal Council  
Cherokee Nation

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2011, on our consideration of the Nation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The accompanying management's discussion and analysis, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nation's basic financial statements. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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

BKD, LLP

March 25, 2011

## 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, 2010. Readers of the Nation's financial statements are encouraged to utilize this information in conjunction with the information provided in the letter of transmittal, which precedes this section, and the accompanying basic financial statements and disclosures following this section.

### FINANCIAL HIGHLIGHTS – PRIMARY GOVERNMENT

- The Nation's assets exceeded its liabilities at the end of fiscal year 2010 by \$222 million (net assets). Of this total amount, \$53 million are unrestricted net assets that may be used to meet the government's ongoing obligations.
- The Nation's overall liabilities increased by approximately \$32 million to \$243 million.
- The net assets increased by \$16 million, which is largely attributable to unspent program income in Self Governance Department of Health and Human Services ("DHHS").

### OVERVIEW OF THE FINANCIAL STATEMENTS

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

#### Basic Financial Statements

The basic financial statements include two types of financial statements that present different views of the Nation, the *Government-Wide Financial Statements* and the *Fund Financial Statements*. The basic financial statements also include *Notes to Basic Financial Statements*, which explain and provide additional detail about some of the information contained in the statements.

#### Government-Wide Financial Statements

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

The *Statement of Net Assets* presents the assets and liabilities for the entire Nation, with the difference reported as "net assets." Increases or decreases in net assets over time, can serve as an indicator of the improvement or decline in the Nation's financial position.

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

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

- *Governmental Activities* – This section presents information about activities supported by dividends from component units, taxes, intergovernmental revenues (state and federal grants), and private grants. The services provided by the Nation's government generally fall into this category, including tribal government, health services, education services, human services, and community services.
- *Business-Type Activities* – These types of activities are intended to recover all or a substantial portion of their costs through user fees and charges to external users of the goods and services. The active business-type activities of the Nation include the Title VI Loan Fund, Tsa-La-Gi Apartments, Landfill Closure and Economic Development Trust Authority.
- *Discretely Presented Component Units* – These are the operations for which the Nation has financial accountability, but have certain independent qualities, such as an independent Board of Directors. For the most part, these units operate similar to private-sector business.

The Nation's discretely presented component units are:

- Cherokee Nation Businesses, LLC ("CNB") and related companies
- The Housing Authority of the Cherokee Nation ("HACN")
- Cherokee Nation Comprehensive Care Agency ("CNCCA")
- Cherokee Nation Home Health Services, Inc. ("CNHHS")
- Cherokee Nation Waste Management, LLC ("CNWM")

Complete financial statements for CNB, HACN, CNCCA, CNHHS and CNWM can be obtained from their respective administrative offices, or by contacting Cherokee Nation, Office of the Controller.

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

## **Fund Financial Statements**

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

The fund financial statements focus on individual activities of the Nation's government, providing more detail than the government-wide financial statements. The funds of the

Nation are divided into three types, which use different accounting approaches and should be interpreted differently. The three types of funds are:

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

Because the focus of the governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, the readers may better understand the long-term impact of the government’s near-term financing decisions. The Governmental Fund Balance Sheet and the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities. These reconciliations are presented on pages 28 and 30 of the financial statements.

The Nation maintains six major governmental funds, each presented in a separate column in the Governmental Fund Balance Sheet and in the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances. The Nation’s six major governmental funds are the General, Self Governance Department of Interior (“DOI”) Roads, 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 fourteen nonmajor funds, including a debt service fund and two permanent funds to account for other governmental activity. The governmental fund statements can be found on pages 28 and 29 of this report.

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

The proprietary funds financial statements can be found on pages 32 - 34 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, Landfill Closure and Economic

Development Trust Authority (“EDTA”). The nonmajor enterprise combining financial statements can be found on pages 86 - 88 of this report.

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

The internal service funds are:

- *Internal Leases* – used to account for the cost to maintain buildings for use by other funds of the Nation.
- *Fringe Pool* – used to account for the cost of fringe benefits, including the Nation’s self-insured health care and worker’s compensation benefits, used by other funds of the Nation.
- *Indirect Cost Pool* – used to account for the cost of providing certain services, such as accounting, human resources, and acquisition management, to other funds of the Nation.

The internal service funds combining financial statements can be found on pages 89 - 91 of this report.

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

The financial statements for component units can be found on pages 35 - 37 of this report.

## **Notes to Basic Financial Statements**

The notes to basic financial statements provide additional information that is essential for a full understanding of the data provided in the government-wide and the fund financial statements. The notes to basic financial statements can be found on pages 38 - 83 of this report.

## Supplementary Information

The basic financial statements are followed by a section of supplementary information. This section of the report includes combining schedules for nonmajor governmental and enterprise funds, internal service funds, one of the Nation's component units and a budgetary comparison schedule for the Nation's enterprise funds. The supplementary information section begins on page 84.

## 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 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 95.

## COMPARATIVE ANALYSIS FOR MAJOR FUNDS

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

				<b>Percentage</b>
<b>Major Fund</b>	<b>2010</b>	<b>2009</b>	<b>Increase/ (Decrease)</b>	<b>Increase/ (Decrease)</b>
General Fund				
Revenues and transfers in	\$ 60,476	\$ 61,866	\$ (1,390)	(2.2)%
Expenditures and transfers out	67,436	78,190	(10,754)	(13.8)%
Self Governance DOI Roads				
Revenues and transfers in	2,628	5,714	(3,086)	(54.0)%
Expenditures and transfers out	2,628	5,714	(3,086)	(54.0)%
Department of Transportation				
Revenues and transfers in	5,809	-	5,809	0.0 %
Expenditures and transfers out	5,765	-	5,765	0.0 %
Self Governance DHHS				
Revenues and transfers in	200,767	183,734	17,033	9.3 %
Expenditures and transfers out	196,519	158,176	38,343	24.2 %
Housing and Urban Development				
Revenues and transfers in	44,351	36,777	7,574	20.6 %
Expenditures and transfers out	44,232	36,855	7,377	20.0 %
Capital Projects Fund				
Revenues and transfers in	38,962	-	38,962	0.0 %
Expenditures and transfers out	1,344	(21)	1,365	(6500.0)%
Title VI Loan Fund				
Revenues and transfers in	474	816	(342)	(41.9)%
Expenses and transfers out	469	826	(357)	(43.2)%

#### General Fund:

General Fund revenues are down slightly primarily due to the elimination of the State Tobacco Compact refund and decreased receipts of program income from HACN for Mutual Help Operations and Proceeds of Sale.

General Fund expenditures decreased in fiscal year 2010 as compared to fiscal year 2009 primarily as a result of reductions in tribal contract health, which were absorbed by increased funding through the self-governance compact, reduced legal fees related to the Nation's Advocacy Initiative and funding for employee performance incentives from other sources.

The Nation's unreserved fund balance decreased by \$7 million during fiscal year 2010. The decrease in unreserved fund balance was anticipated by the Nation in the annual comprehensive budget.

#### Self Governance DOI Roads:

Both the revenues and transfers in and expenditures and transfers out decreased due to a reduction in the number of roads being in the major construction phase and a larger number of roads being in the planning and design phases as compared to the previous year. Reduction is also attributable to spending time sensitive The American Recovery and Reinvestment Act ("ARRA") funding through DOT as opposed to spending regular DOI funding. Projects that were previously being funded through regular funding were approved as ARRA funded projects.

#### Department of Transportation:

Both the revenues and transfers in and expenditures and transfers out increased primarily due to the use of ARRA funding to plan, design and construct roads and bridges. DOT received new funding for FY10 and was not a major fund in FY09.

#### Self Governance DHHS:

Self Governance DHHS revenues and transfers in increased in fiscal year 2010 due to serving more patients through expanded services.

Self Governance DHHS expenditures and transfers out increased in fiscal year 2010 as a result of expanded services, equipment upgrades and additions, construction projects and ARRA funding for water and sewer line construction. ARRA funding was also awarded to WW Hastings for equipment purchases and roof repair.

#### Housing and Urban Development:

Revenues and transfers in increased in the HUD programs primarily due to receipt of ARRA funding for NAHASDA and NAHBG programs offset by funding shifts in the NAHASDA programs.

HUD expenditures and transfers out increased from fiscal year 2009 as a result of the use of ARRA funding for projects related to NAHASDA and NAHBG programs as well as ICDBG projects. The ARRA funds were used primarily for modernization and rehabilitation of homes for Cherokee citizens and other qualified home owners.

#### Capital Projects Fund:

Both the revenues and transfers in and expenditures and transfers out increased due to several new health construction projects, including planned construction of a new health care clinic in Vinita. The construction projects are being funded through internal sources and a new debt issuance of \$24 million.

#### Title VI Loan Fund:

Revenues and transfers in decreased in fiscal year 2010 as compared to fiscal year 2009 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, as well as lower interest rates on the variable portion of the loan.

## **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

### **Net Assets**

As stated earlier, the government-wide financial statements are presented to give a broad overview of the government as a whole. Total assets for the Nation's governmental activities at fiscal year ended September 30, 2010 were \$440 million. Of the \$440 million, \$101 million was related to investment in capital assets such as land, buildings, and equipment. Other assets, primarily cash, investments, and receivables, represent funds available to meet both current and future obligations of the Nation.

Total liabilities of the Nation's governmental activities at September 30, 2010 were \$222 million. Of this amount, approximately \$48 million related to long-term obligations primarily for the bonds issued to construct two health clinics and expand a third health clinic as well as a loan to build an additional health clinic. Other liabilities represented accounts payable, deferred grant revenue, and other obligations generally due within one year of the financial statement date.

The assets of the Nation's governmental activities exceeded liabilities at September 30, 2010 by \$218 million, which is stated as net assets.

The Nation's business-type activities had total assets of \$25 million at September 30, 2010. Of the \$25 million, \$1 million was related to investment in capital assets such as land, buildings and equipment. The liabilities related to the business-type activities at fiscal yearend were \$21 million. The majority of this amount was related to long-term obligations primarily for the Title VI guaranteed loan program used to provide affordable housing to Tribal citizens and economic development trust authority loans for small business development, and the Landfill. Other liabilities represented accounts payable and other obligations generally due within one year of the financial statement date. The assets of the Nation's business-type activities exceeded liabilities at September 30, 2010 by \$4 million, which is stated as net assets. The following table presents the Nation's net assets for the primary government (dollars in thousands):

**Cherokee Nation's Net Assets**

	Governmental		Business-Type		Total		Increase/ (Decrease)
	Activities		Activities				
	2010	2009	2010	2009	2010	2009	
Current and other assets	\$ 338,811	\$ 290,441	\$ 24,030	\$ 27,356	\$ 362,841	\$ 317,797	\$ 45,044
Capital assets	<u>101,567</u>	<u>99,769</u>	<u>645</u>	<u>548</u>	<u>102,212</u>	<u>100,317</u>	<u>1,895</u>
Total assets	<u>440,378</u>	<u>390,210</u>	<u>24,675</u>	<u>27,904</u>	<u>465,053</u>	<u>418,114</u>	<u>46,939</u>
Long-term debt outstanding	48,105	26,911	18,169	22,290	66,274	49,201	17,073
Other liabilities	<u>173,796</u>	<u>159,721</u>	<u>2,597</u>	<u>2,485</u>	<u>176,393</u>	<u>162,206</u>	<u>14,187</u>
Total liabilities	<u>221,901</u>	<u>186,632</u>	<u>20,766</u>	<u>24,775</u>	<u>242,667</u>	<u>211,407</u>	<u>31,260</u>
Net assets invested in capital assets, net of related debt	78,468	74,152	457	253	78,925	74,405	4,520
Restricted	89,899	61,015	324	398	90,223	61,413	28,810
Unrestricted	<u>50,110</u>	<u>68,411</u>	<u>3,128</u>	<u>2,478</u>	<u>53,238</u>	<u>70,889</u>	<u>(17,651)</u>
Total net assets	<u>\$ 218,477</u>	<u>\$ 203,578</u>	<u>\$ 3,909</u>	<u>\$ 3,129</u>	<u>\$ 222,386</u>	<u>\$ 206,707</u>	<u>\$ 15,679</u>

\$79 million of the net assets balance represents investment in capital assets, net of related debt. Restricted net assets represent external restrictions placed upon assets of the Nation. The largest category of restricted net assets is related to net assets restricted for specific program purposes. Of the total net assets, \$53 million is reported as unrestricted net assets. The unrestricted net assets represent amounts available for future services for the Nation's citizens, obligations, and creditors.

At September 30, 2010, the Nation reported positive net assets for the government as a whole, as well as for its separate governmental and business-type activities.

**Changes in Net Assets**

The Nation's total net assets increased by \$16 million, or 8%, during the year. Total revenues for fiscal year ended September 30, 2010 were \$422 million. Total expenses of the Nation were \$406 million, which cover a variety of services. Approximately 51% of the total expenses were for health care for Tribal citizens. In total, governmental-type revenues exceeded expenses by \$15 million, resulting in an increase in net assets. Net revenues for business-type activities exceeded expenses by \$1 million, resulting in an increase in net assets. The changes in net assets during 2010 are as follows (dollars in thousands):

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

	Governmental		Business-Type		Total	
	Activities		Activities			
	2010	2009	2010	2009	2010	2009
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 63,582	\$ 56,968	\$ 1,300	\$ 1,503	\$ 64,882	\$ 58,471
Operating grants/contributions	289,034	258,558	-	-	289,034	258,558
Capital grants/contributions	989	1,994	-	-	989	1,994
General revenues:						
Motor fuel tax	7,256	7,514	-	-	7,256	7,514
Motor vehicle tax	7,707	7,400	-	-	7,707	7,400
Tobacco tax and fees	4,194	5,312	-	-	4,194	5,312
Sales tax	2,314	1,610	-	-	2,314	1,610
Grants and contributions not restricted to specific programs	11,143	10,398	-	-	11,143	10,398
Unrestricted investment earnings	2,056	2,293	3	18	2,059	2,311
Dividends from Component Units	26,429	26,444	-	-	26,429	26,444
Miscellaneous	5,483	4,848	-	-	5,483	4,848
Gain/(loss) on disposals	-	-	-	-	-	-
Total revenues	<u>420,187</u>	<u>383,339</u>	<u>1,303</u>	<u>1,521</u>	<u>421,490</u>	<u>384,860</u>
<b>Expenses:</b>						
Tribal government	29,841	29,323	-	-	29,841	29,323
Health services	206,013	179,806	-	-	206,013	179,806
Education services	54,085	46,200	-	-	54,085	46,200
Human services	37,932	36,231	-	-	37,932	36,231
Community services	75,600	72,334	-	-	75,600	72,334
Interest on long-term debt	1,309	1,525	-	-	1,309	1,525
Total governmental expenses	<u>404,780</u>	<u>365,419</u>	<u>-</u>	<u>-</u>	<u>404,780</u>	<u>365,419</u>
Title VI Loan Fund	-	-	469	826	469	826
Tsa-La-Gi Apartments	-	-	387	393	387	393
Landfill Closure	-	-	128	-	128	-
EDTA	-	-	47	73	47	73
Total business-type expenses	<u>-</u>	<u>-</u>	<u>1,031</u>	<u>1,292</u>	<u>1,031</u>	<u>1,292</u>
Increase in net assets before transfers	15,407	17,920	272	229	15,679	18,149
Transfers	(508)	(357)	508	357	-	-
Change in net assets	14,899	17,563	780	586	15,679	18,149
Net assets—Beginning of year	<u>203,578</u>	<u>186,015</u>	<u>3,129</u>	<u>2,543</u>	<u>206,707</u>	<u>188,558</u>
Net assets—End of year	<u>\$ 218,477</u>	<u>\$ 203,578</u>	<u>\$ 3,909</u>	<u>\$ 3,129</u>	<u>\$ 222,386</u>	<u>\$ 206,707</u>

As indicated earlier in this report, the increase in net assets in 2010 is largely attributable to unspent program income in SG DHHS. The more significant increases in expenses in fiscal year 2010 as compared to fiscal year 2009 are as follows:

Tribal government – The increase in expenditures resulted primarily of comprehensive long term planning for governmental needs and additional scholarship initiatives.

Health services – Increased funding for recurring contract support costs and one time ARRA funding awards.

Education services – SHS and Head Start received and spent additional ARRA funding.

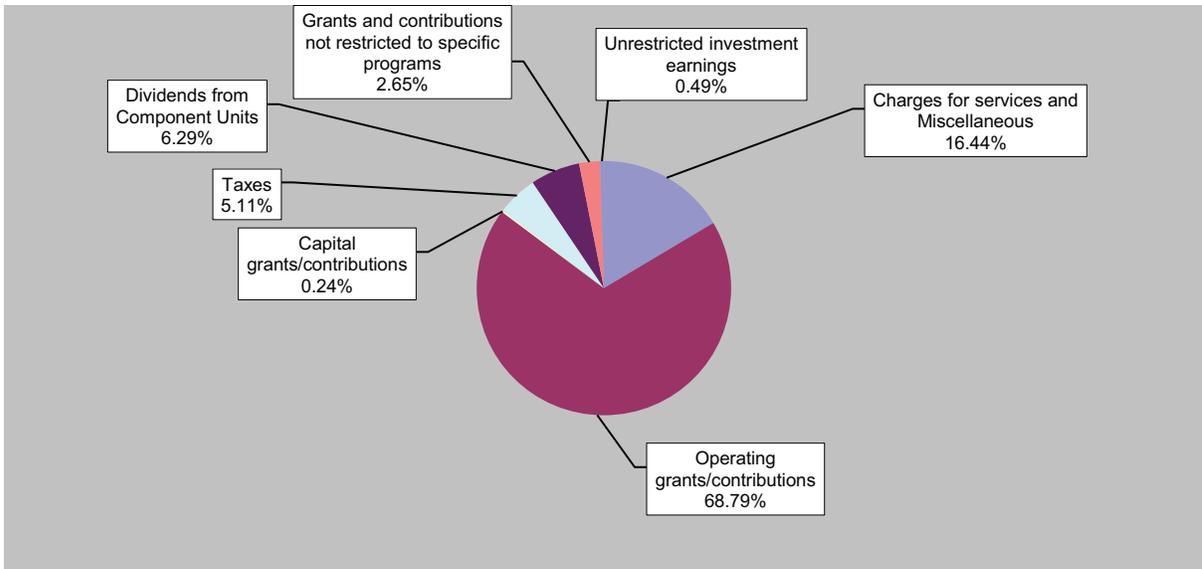
Human services – Child Care received and spent additional ARRA funding.

Community services – Increased spending in fiscal year 2010 relates primarily to ARRA funding for housing.

Overall, the Nation had \$25.6 million of expenditures related to one time ARRA funding. The funding positively impacted many areas of Cherokee Nation, including road and bridge construction, rehabilitation and modernization of citizen homes, additional funding for Head Start and Childcare programs, summer youth employment and capital improvements at WW Hastings hospital.

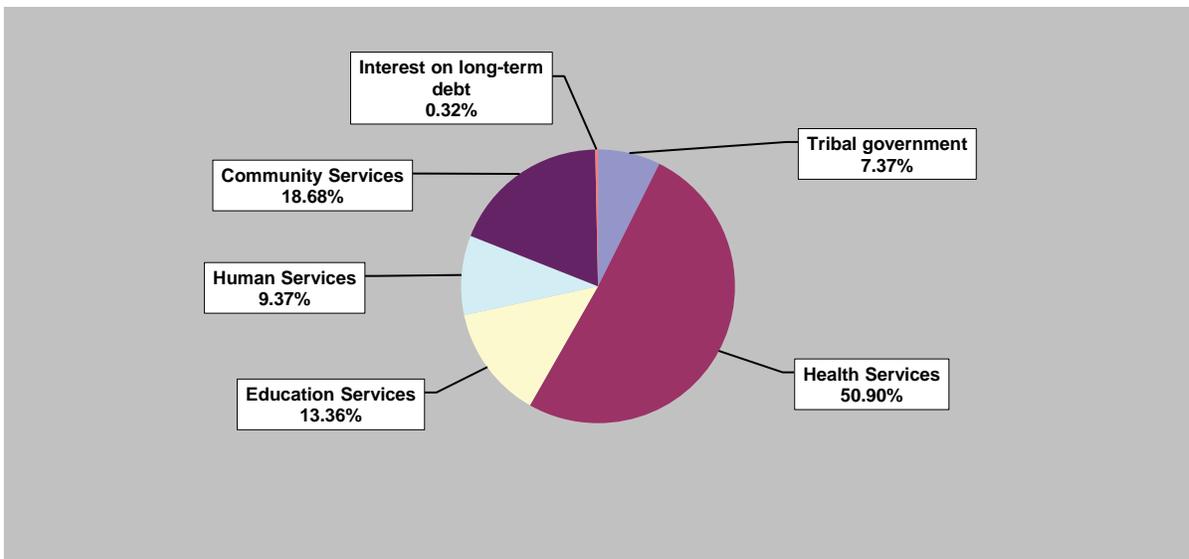
Graph 1 depicts revenues by source for the Governmental Activities of the Nation.

**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 27.

## SIGNIFICANT BUDGET VARIATIONS

The Nation's significant General Fund budget variations in 2010 were as follows (dollars in thousands):

	Original Budget	Final Budget	Original vs. Final		Actual	Budget vs. Actual		
			Variance Increase/ (Decrease)	Percentage Increase/ (Decrease)		Variance Increase/ (Decrease)	Percentage Increase/ (Decrease)	
Revenues:								
Interest	1,294	894	(400)	(31%)	727	(167)	(19%)	
Trust fund income	155	155	-	- %	101	(54)	(35%)	
3rd party revenues	284	360	76	27%	1,480	1,120	311%	
Income from HACN	-	-	-	- %	1,425	1,425	0%	
Other	4,797	5,143	346	7%	2,221	(2,922)	(57%)	
Expenditures:								
Tribal government	32,134	31,176	(958)	(3%)	23,663	(7,513)	(24%)	
Health services	7,632	5,653	(1,979)	(26%)	5,394	(259)	(5%)	
Education services	19,403	20,609	1,206	6%	16,294	(4,315)	(21%)	
Community services	26,311	27,806	1,495	6%	15,153	(12,653)	(46%)	
Debt service	5	5	-	-%	6	1	20%	
Capital outlay	8,892	7,839	(1,053)	(12%)	1,380	(6,459)	(82%)	

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 changes in levels of actual revenues and expenditures/expenses. Variances between actual and final budget were as follows:

### General Fund Revenues:

Interest - Actual income was less than budgeted primarily due to lower interest rates during 2010.

Trust fund income – Actual income was less as a result of lesser oil and gas royalties received.

3<sup>rd</sup> party revenues – Actual revenue was higher attributable to insurance receipts on housing activities that were budgeted as Other revenues but reported as 3<sup>rd</sup> party revenues.

Income from HACN – Actual income was higher than budget because the HACN was able to contribute more support for housing programs than originally planned. This revenue received from the HACN was budgeted as Other revenues but reported as Income from HACN.

Other – Actual revenues were less than budget due to receipts of final payments from the HACN being lower than expected. The HACN revenue that was received was budgeted as Other revenues but reported as either 3<sup>rd</sup> party revenues or Income from HACN. Also, actual revenue received by the Tribal Employment Rights Office (“TERO”) Job Training program was less than was budgeted. Finally, budgeted revenue for 2010 from Cherokee Nation Historical Society (“CNHS”) was not earned or received.

#### General Fund Expenditures:

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 2010 as well as contracts not completed for the Vinita Clinic Utilities, Building Structures and Property Maintenance, Advocacy Initiative, Gaming Commission and the Tribal Council.

Health services - Actual expenditures were less than budget due to the operational costs for the Community Recreation Center and Substance Abuse Treatment program being less than were budgeted.

Education services – Actual expenditures were less than budget due to operational costs for the CN Historical Society and Day Work Training program being less than were budgeted along with no expenditures being incurred by the Head Start After School program. In addition, the Motor Fuels Tax Education Reserve was not utilized in 2010.

Community services – Actual expenditures were less than budget as a result of reserves for Motor Vehicle 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. Other programs, such as the Community Training and Technical Assistance (“COTTA”), Tax Commission, CN Tag Office and Housing programs, did not expend funds at the level budgeted.

Debt service - The actual expenditures for debt service were greater than budget due to the mortgage assumed from the Myer Estate, for which these debt payments were not budgeted in 2010.

Capital outlay - The Nation’s budget included approximately \$5 million for strategic land and building purchases from the proceeds of the Arkansas Riverbed settlement funds. Actual expenditures were less than budget partially due to timing of land and building purchases and Capital Improvements planning.

### **CAPITAL ASSETS AND DEBT ADMINISTRATION**

The Nation’s capital assets, net of depreciation, at the end of fiscal year 2010 were \$102 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):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Land and improvements	\$ 16,386	\$ 81	\$ 16,467
Construction in Progress	1,642	-	1,642
Buildings and improvements	66,665	564	67,229
Equipment	<u>16,874</u>	<u>-</u>	<u>16,874</u>
Total capital assets	<u>\$ 101,567</u>	<u>\$ 645</u>	<u>\$ 102,212</u>

Additional information on the Nation's capital assets can be found in Note 7 on pages 61 - 63 of this report.

The Nation's long-term debt at the end of fiscal year 2010 was approximately \$66 million, primarily related to Title VI loan proceeds and health clinic construction and expansion. The following is a summary of long-term debt at September 30, 2010 (dollars in thousands):

	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Notes payable	\$ 25,406	\$ 18,169	\$ 43,575
Bonds payable	21,970	-	21,970
Capital leases payable	<u>729</u>	<u>-</u>	<u>729</u>
Total long-term debt	<u>\$ 48,105</u>	<u>\$ 18,169</u>	<u>\$ 66,274</u>

The Nation, as a tribal government, has the ability to incur debt, similar to a state or local government. The Nation entered into an agreement with JP Morgan Chase, which was previously Bank One, guaranteed by the United States Department of Housing and Urban Development. 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, 2010, borrowings under this credit facility totaled approximately \$16,585,000.

The bond issuance, which occurred in 2007, provided the funding necessary to construct new clinics in Muskogee and Nowata and expand the clinic in Sallisaw. The debt and interest associated with this bond issuance is serviced through health third party revenues.

The Nation entered into a 15 year note in 2010, to construct a new clinic in Vinita. The loan proceeds along with additional funding from the SG DHHS fund will cover the costs of the new clinic.

Additional information on the Nation's long-term debt can be found in Note 8 on pages 64 - 69 of this report.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The Nation continues to provide vital services to the citizens despite the economic downturn. The outlook for 2011 revenue is relatively flat for General Fund. Budgeted expenditures and transfers for the Nation's General Fund for fiscal year 2011 total \$100 million, approximately \$15 million less than the final amounts budgeted for fiscal year 2010

due to a reduction of carryover funding budgeted for fiscal year 2011. The American Recovery and Reinvestment Act (“ARRA”) provided additional funding to the Nation through a series of grants distributed by various federal agencies. This one-time funding was utilized by the Nation to address the needs of the citizens, such as roads, water and sanitation and housing.

The softening of gaming markets is anticipated to continue into fiscal year 2011. The economic downturn is expected to continue to have some impact on gaming; however, the overall effect has been mitigated to a large degree through strategic growth and marketing strategies. 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”). 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 as well as development of proprietary games. CNE continues its initiatives to improve loyalty within its existing customer base including targeted marketing and rewards programs.

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

This financial report is designed to provide a general overview of the Nation’s finances to its citizens, customers, creditors, and other interested parties. Questions concerning any of the information contained in this report or requests for additional financial information should be directed to the Nation’s Controller’s Office, Post Office Box 809, Tahlequah, Oklahoma, 74465.



# BASIC FINANCIAL STATEMENTS

GWX9 D3F

CHEROKEE NATION®

Comprehensive Annual Financial Report



# GOVERNMENT-WIDE FINANCIAL STATEMENTS

GWX9 D3F

CHEROKEE NATION®

Comprehensive Annual Financial Report

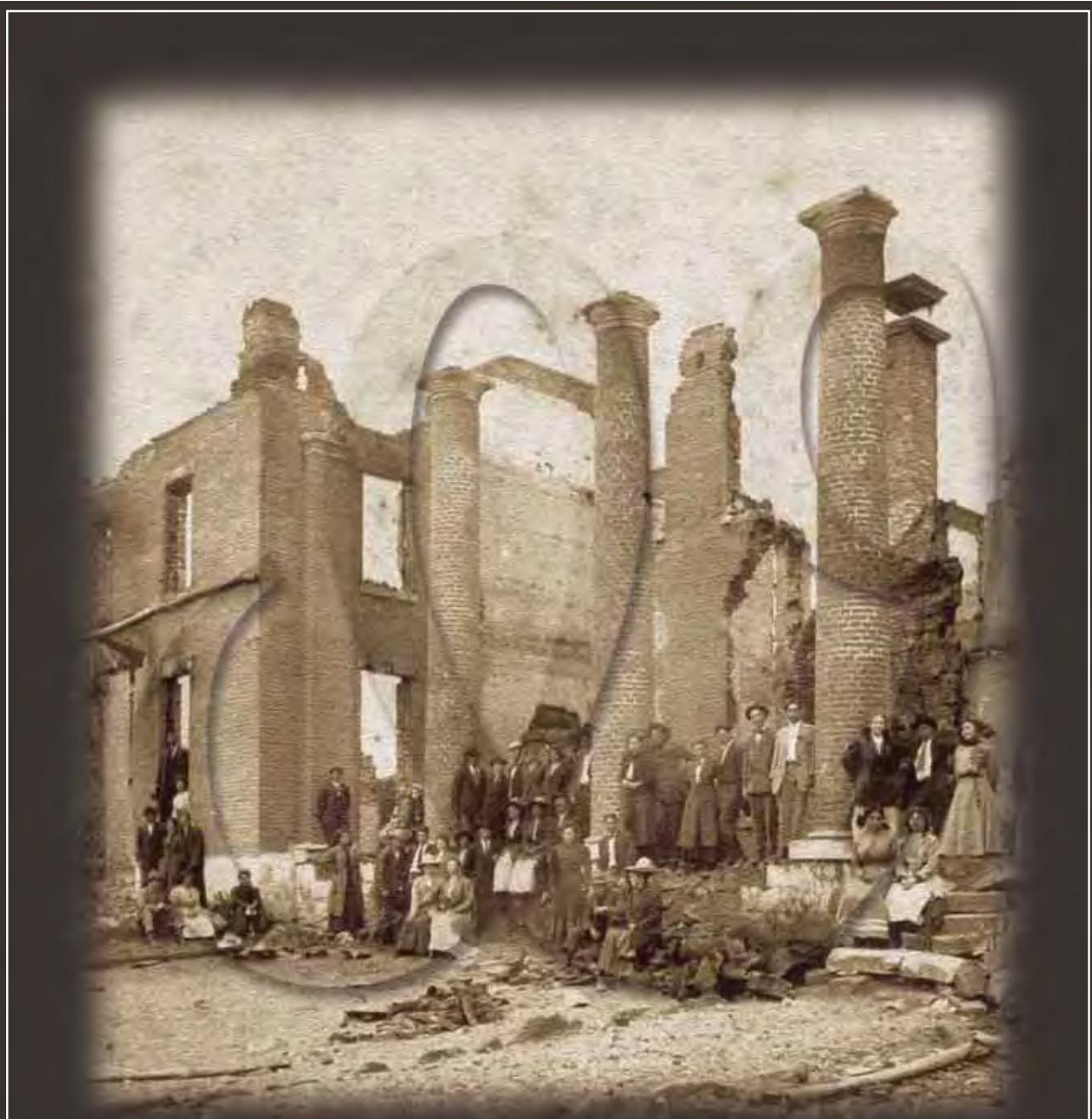
**CHEROKEE NATION**

**STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2010  
(Dollars in Thousands)**

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 227,327	\$ 3,516	\$ 230,843	\$ 37,840
Investments	13,001	-	13,001	25,196
Accounts receivable, net	18,085	1	18,086	28,773
Mortgages receivable, Title VI and partnerships, current	-	-	-	558
Due from other funds - Internal Balances	3,660	(3,660)	-	-
Due from component units	2,721	1,265	3,986	-
Inventories	3,576	-	3,576	15,276
Notes receivable	84	2,518	2,602	18
Other current assets	9,700	9	9,709	5,043
Restricted cash, cash equivalents and investments	58,063	2,693	60,756	18,011
Long-term notes receivable	-	17,688	17,688	1,577
Long-term mortgages receivable, Title VI and partnerships	-	-	-	22,196
Other assets	1,760	-	1,760	6,039
Investment in joint ventures/partnerships	-	-	-	7,010
Deferred Outflow	834	-	834	-
Capital assets, non depreciable	17,307	81	17,388	49,935
Capital assets, depreciable, net	84,260	564	84,824	485,646
<b>Total assets</b>	<b>440,378</b>	<b>24,675</b>	<b>465,053</b>	<b>703,118</b>
<b>Liabilities</b>				
Accounts payable and accrued liabilities	33,497	67	33,564	68,937
Due to primary government	-	-	-	3,986
Other current liabilities	6,724	17	6,741	-
Unearned revenue	959	-	959	475
Deferred grant revenue	125,544	-	125,544	-
Notes payable and long-term debt				
Due within one year	3,968	1,992	5,960	2,077
Due in more than one year	43,408	16,177	59,585	36,539
Capital leases				
Due within one year	269	-	269	-
Due in more than one year	460	-	460	-
Compensated absences				
Due within one year	6,238	-	6,238	-
Trust liabilities	-	-	-	8,035
Other noncurrent liabilities	834	2,513	3,347	-
<b>Total liabilities</b>	<b>221,901</b>	<b>20,766</b>	<b>242,667</b>	<b>120,049</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	78,468	457	78,925	525,820
Restricted for				
Motor vehicle tax	6,703	-	6,703	-
CDs restricted as collateral for Vinita Debt	24,000	-	24,000	-
Permanent Funds - expendable	76	-	76	-
Permanent Funds - nonexpendable	425	-	425	-
Judgment funds - nonexpendable	3,280	-	3,280	-
Construction	-	-	-	4,132
TERO Job Training Programs	779	-	779	-
Arkansas River Drybed Lands Settlement	2,271	-	2,271	-
Debt service	1,667	-	1,667	2,571
Program services	50,698	-	50,698	32,952
Tsa-La-Gi repair and replacements	-	324	324	-
Unrestricted net assets	50,110	3,128	53,238	17,594
<b>Total net assets</b>	<b>\$ 218,477</b>	<b>\$ 3,909</b>	<b>\$ 222,386</b>	<b>\$ 583,069</b>

**CHEROKEE NATION**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2010**  
**(Dollars in Thousands)**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units	
					Governmental Activities	Business-type Activities	Total		
<b>Primary Government:</b>									
Governmental activities:									
Tribal government	\$ 29,841	\$ 4,237	\$ 230	\$ 733	\$ (24,641)	\$ -	\$ (24,641)	\$ -	-
Health services	206,013	58,351	164,753	256	17,347	-	17,347	-	-
Education services	54,085	-	33,296	-	(20,789)	-	(20,789)	-	-
Human services	37,932	-	30,482	-	(7,450)	-	(7,450)	-	-
Community services	75,600	994	60,273	-	(14,333)	-	(14,333)	-	-
Interest on long-term debt	1,309	-	-	-	(1,309)	-	(1,309)	-	-
Total governmental activities	404,780	63,582	289,034	989	(51,175)	-	(51,175)	-	-
Business-type activities:									
Title VI Loan Fund	469	474	-	-	-	5	5	-	-
Tsa-La-Gi Apartments	387	514	-	-	-	127	127	-	-
Landfill Closure	128	128	-	-	-	-	-	-	-
EDTA	47	184	-	-	-	137	137	-	-
Total business-type activities	1,031	1,300	-	-	-	269	269	-	-
Total primary government	\$ 405,811	\$ 64,882	\$ 289,034	\$ 989	(51,175)	269	(50,906)	-	-
Component Units	\$ 555,643	\$ 606,082	\$ 945	\$ -				51,384	
<b>General Revenues:</b>									
Motor fuel tax					7,256	-	7,256	-	-
Motor vehicle tax					7,707	-	7,707	-	-
Tobacco tax					4,194	-	4,194	-	-
Sales tax					2,314	-	2,314	-	-
Grants and contributions not restricted to specific programs					11,143	-	11,143	-	-
Unrestricted investment earnings					2,056	3	2,059	1,598	
Dividends from component units					26,429	-	26,429	-	-
Miscellaneous revenue					5,483	-	5,483	486	
Income on investments in joint ventures					-	-	-	1,640	
Gain on disposals					-	-	-	372	
Transfers					(508)	508	-	-	-
Total general revenues and transfers					66,074	511	66,585	4,096	
Change in net assets					14,899	780	15,679	55,480	
Net assets, beginning					203,578	3,129	206,707	527,589	
Net assets, ending					\$ 218,477	\$ 3,909	\$ 222,386	\$ 583,069	



# FUND FINANCIAL STATEMENTS

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CHEROKEE NATION®

Comprehensive Annual Financial Report

**CHEROKEE NATION**

**BALANCE SHEET - GOVERNMENTAL FUNDS**

**SEPTEMBER 30, 2010**

**(Dollars in Thousands)**

	<u>General</u>	<u>Self Governance DOI Roads</u>	<u>Dept 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	\$ 32,500	\$ 40,347	\$ 22,431	\$ 65,573	\$ 34,642	\$ -	\$ 31,795	\$ 227,288
Investments	-	-	-	-	5,063	-	7,938	13,001
Receivables, net	2,434	-	-	8,324	369	-	6,962	18,089
Due from other funds	9,851	-	-	-	-	14,642	-	24,493
Due from component units	3,598	-	-	-	(982)	-	-	2,616
Inventories	-	-	-	2,131	395	-	919	3,445
Notes receivable	-	-	-	-	-	-	84	84
Other current assets	2	-	-	9,243	-	-	199	9,444
Restricted cash, cash equivalents and investments	29,561	-	-	-	-	24,021	4,481	58,063
Total assets	<u>\$ 77,946</u>	<u>\$ 40,347</u>	<u>\$ 22,431</u>	<u>\$ 85,271</u>	<u>\$ 39,487</u>	<u>\$ 38,663</u>	<u>\$ 52,378</u>	<u>\$ 356,523</u>
<b>LIABILITIES AND FUND BALANCES</b>								
<b>LIABILITIES:</b>								
Accounts payable and accrued liabilities	\$ 16,323	\$ -	\$ -	\$ 6,479	\$ 59	\$ -	\$ 23	\$ 22,884
Due to other funds	-	1,484	928	29,808	3,139	-	7,537	42,896
Other current liabilities	3	-	-	2	13	-	214	232
Deferred grant revenue	-	38,863	21,459	5,162	35,873	-	24,187	125,544
Unearned revenue	11	-	-	-	-	-	948	959
Total liabilities	<u>16,337</u>	<u>40,347</u>	<u>22,387</u>	<u>41,451</u>	<u>39,084</u>	<u>-</u>	<u>32,909</u>	<u>192,515</u>
<b>FUND BALANCES:</b>								
Fund balance:								
Reserved by Legislative Act (Note 13):								
Motor fuel tax	32,318	-	-	-	-	-	-	32,318
Cash reserve	1,256	-	-	-	-	-	-	1,256
Arkansas Riverbed settlement	5,917	-	-	-	-	-	-	5,917
TERO job training programs	779	-	-	-	-	-	-	779
Tribal judgements and trusts	-	-	-	-	-	-	5,319	5,319
Reserved by external sources and enabling legislation:								
Grant programs	-	-	44	43,820	403	-	6,431	50,698
Motor vehicle tax	6,703	-	-	-	-	-	-	6,703
Permanent funds	-	-	-	-	-	-	501	501
Judgment funds	-	-	-	-	-	-	5,551	5,551
Capital Projects Fund	-	-	-	-	-	38,663	-	38,663
Reserved for debt service	-	-	-	-	-	-	1,667	1,667
Unreserved, undesignated reported in (Note 13):								
General Fund	14,636	-	-	-	-	-	-	14,636
Total fund balances	<u>61,609</u>	<u>-</u>	<u>44</u>	<u>43,820</u>	<u>403</u>	<u>38,663</u>	<u>19,469</u>	<u>164,008</u>
Total liabilities and fund balances	<u>\$ 77,946</u>	<u>\$ 40,347</u>	<u>\$ 22,431</u>	<u>\$ 85,271</u>	<u>\$ 39,487</u>	<u>\$ 38,663</u>	<u>\$ 52,378</u>	

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

Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds.

89,171

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

2,531

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

10,730

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

(47,963)

Net assets of governmental activities

\$ 218,477

See notes to basic financial statements

**CHEROKEE NATION**

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010  
(Dollars in Thousands)**

	General	Self Governance DOI Roads	Dept of Transportation	Self Governance DHHS	Housing & Urban Development	Capital Projects Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues:</b>								
Intergovernmental	\$ -	\$ 2,342	\$ 5,737	\$ 141,407	\$ 40,350	\$ -	\$ 99,258	\$ 289,094
Property rentals	1,606	-	-	-	2,826	-	-	4,432
Motor fuel tax revenues	7,256	-	-	-	-	-	-	7,256
Tax and license revenues	17,840	-	-	-	-	-	-	17,840
Interest	727	285	72	734	371	21	574	2,784
Trust fund income	101	-	-	-	-	-	-	101
Dividends from component units	26,429	-	-	-	-	-	-	26,429
3rd party revenues	1,480	-	-	58,352	-	-	739	60,571
Income from HACN	1,425	-	-	-	-	-	-	1,425
Other	2,221	1	-	274	256	-	6,039	8,791
<b>Total revenues</b>	<b>59,085</b>	<b>2,628</b>	<b>5,809</b>	<b>200,767</b>	<b>43,803</b>	<b>21</b>	<b>106,610</b>	<b>418,723</b>
<b>Expenditures:</b>								
Current operating:								
Tribal Government	23,663	-	-	337	191	-	3,914	28,105
Health Services	5,394	-	-	169,807	-	55	26,517	201,773
Education Services	16,294	-	-	-	-	-	37,161	53,455
Human Services	3,855	-	-	-	49	-	33,721	37,625
Community Services	15,153	2,343	5,737	4,455	43,216	-	4,067	74,971
Debt services:								
Principal	2	-	-	551	-	-	1,595	2,148
Interest	4	-	-	240	-	-	1,007	1,251
Capital outlay	1,380	-	-	2,735	586	1,289	1,499	7,489
<b>Total expenditures</b>	<b>65,745</b>	<b>2,343</b>	<b>5,737</b>	<b>178,125</b>	<b>44,042</b>	<b>1,344</b>	<b>109,481</b>	<b>406,817</b>
Excess (deficiency) of revenues over expenditures	(6,660)	285	72	22,642	(239)	(1,323)	(2,871)	11,906
<b>Other financing sources (uses):</b>								
Issuance of long-term debt	-	-	-	-	-	24,000	-	24,000
Insurance recoveries	133	-	-	-	251	-	15	399
Transfers in	1,258	-	-	-	297	14,941	4,695	21,191
Transfers out	(1,691)	(285)	(28)	(18,394)	(190)	-	(1,111)	(21,699)
<b>Total other financing sources (uses)</b>	<b>(300)</b>	<b>(285)</b>	<b>(28)</b>	<b>(18,394)</b>	<b>358</b>	<b>38,941</b>	<b>3,599</b>	<b>23,891</b>
Net change in fund balances	(6,960)	-	44	4,248	119	37,618	728	35,797
Fund balance, October 1, 2009	68,569	-	-	39,572	284	1,045	18,741	128,211
Fund balance, September 30, 2010	<b>\$ 61,609</b>	<b>\$ -</b>	<b>\$ 44</b>	<b>\$ 43,820</b>	<b>\$ 403</b>	<b>\$ 38,663</b>	<b>\$ 19,469</b>	<b>\$ 164,008</b>

# 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, 2010 (Dollars in Thousands)

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

Net change in fund balances - total governmental funds	\$ 35,797
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.	605
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(21,924)
Some expenses are reported in the Statement of Activities when incurred and presented in the governmental funds when paid.	452
Contributions of capital assets recorded as revenue in government-wide financial statements but not recorded at governmental fund level.	989
Contributions of other assets recorded as revenue in government-wide financial statements but not recorded at governmental fund level.	475
The internal service funds are used to account for those activities which provide services to other functions within the government. These costs are allocated to the governmental funds in the government- wide financial statements. This amount is the net effect of the allocations.	<u>(1,495)</u>
Change in net assets of governmental activities	<u>\$ 14,899</u>

# CHEROKEE NATION

## STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL (GAAP BASIS) - GENERAL FUND FOR THE YEAR ENDED SEPTEMBER 30, 2010 (Dollars in Thousands)

	Budgeted Amounts			Variance with Final Budget over/(under)
	Original	Final	Actual	
Revenues:				
Property rentals	\$ 1,574	\$ 1,574	\$ 1,606	\$ 32
Motor fuel tax	7,200	7,200	7,256	56
Taxes, licenses, and fees	19,964	19,964	17,840	(2,124)
Interest	1,294	894	727	(167)
Trust fund income	155	155	101	(54)
Dividends from component units	34,200	25,800	26,429	629
3rd party revenues	284	360	1,480	1,120
Income from HACN	-	-	1,425	1,425
Other	4,797	5,143	2,221	(2,922)
Total revenues	<u>69,468</u>	<u>61,090</u>	<u>59,085</u>	<u>(2,005)</u>
Expenditures:				
Tribal government	32,134	31,176	23,663	(7,513)
Health services	7,632	5,653	5,394	(259)
Education services	19,403	20,609	16,294	(4,315)
Human services	4,011	3,967	3,855	(112)
Community services	26,311	27,806	15,153	(12,653)
Debt service	5	5	6	1
Capital outlay	8,892	7,839	1,380	(6,459)
Total expenditures	<u>98,388</u>	<u>97,055</u>	<u>65,745</u>	<u>(31,310)</u>
Excess (deficiency) of revenues over expenditures	<u>(28,920)</u>	<u>(35,965)</u>	<u>(6,660)</u>	<u>29,305</u>
Other financing sources (uses):				
Insurance recoveries	-	97	133	36
Transfers in	17,890	17,990	1,258	(16,732)
Transfers out	(18,114)	(18,614)	(1,691)	16,923
Total other financing sources (uses)	<u>(224)</u>	<u>(527)</u>	<u>(300)</u>	<u>227</u>
Net change in fund balance	(29,144)	(36,492)	(6,960)	29,532
Fund balance, October 1, 2009	68,569	68,569	68,569	-
Fund balance, September 30, 2010	<u>\$ 39,425</u>	<u>\$ 32,077</u>	<u>\$ 61,609</u>	<u>\$ 29,532</u>

# CHEROKEE NATION

## STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

SEPTEMBER 30, 2010

(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	\$ 2,612	\$ 904	\$ 3,516	\$ 39
Accounts receivable, net	-	1	1	(4)
Due from other funds	-	80	80	24,724
Due from component units	1,144	121	1,265	105
Inventories	-	-	-	131
Notes receivable, current	1,854	664	2,518	-
Other current assets	-	9	9	256
Total current assets	5,610	1,779	7,389	25,251
Noncurrent assets:				
Restricted cash, cash equivalents and investments	-	2,693	2,693	-
Long-term notes receivable	14,731	2,957	17,688	-
Capital assets, net	-	645	645	12,396
Total noncurrent assets	14,731	6,295	21,026	12,396
Total assets	20,341	8,074	28,415	37,647
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	30	37	67	10,072
Current portion of long-term debt	1,854	138	1,992	552
Due to other funds	3,725	15	3,740	2,661
Compensated absences	-	-	-	6,238
Other current liabilities	-	17	17	6,492
Total current liabilities	5,609	207	5,816	26,015
Noncurrent liabilities:				
Long-term debt	14,731	1,446	16,177	965
Other liabilities	-	2,450	2,450	-
Total noncurrent liabilities	14,731	3,896	18,627	965
Total liabilities	20,340	4,103	24,443	26,980
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	-	457	457	10,879
Restricted for capital replacements	-	324	324	-
Unrestricted net assets/(deficit)	1	3,190	3,191	(212)
Total net assets	\$ 1	\$ 3,971	3,972	\$ 10,667
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(63)	
Net assets of business-type activities			\$ 3,909	

**CHEROKEE NATION**

**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010  
(Dollars in Thousands)**

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Funds
	Title VI Loan Fund	Nonmajor Enterprise Funds	Total	
Operating revenues:				
Property rentals	\$ -	\$ 506	\$ 506	\$ 4
Charges for services and goods	-	-	-	91,970
Other	-	174	174	204
Total operating revenues	<u>-</u>	<u>680</u>	<u>680</u>	<u>92,178</u>
Operating expenses:				
Cost of sales	-	-	-	393
Salaries and wages	-	39	39	75,500
Other services and charges	(1)	418	417	15,441
Materials and supplies	-	19	19	1,413
Depreciation	-	54	54	1,104
Total operating expenses	<u>(1)</u>	<u>530</u>	<u>529</u>	<u>93,851</u>
Operating income (loss)	<u>1</u>	<u>150</u>	<u>151</u>	<u>(1,673)</u>
Nonoperating revenues (expenses):				
Interest income	474	149	623	-
Interest expense	(470)	(31)	(501)	(80)
Gain/(loss) on sale of capital assets	-	-	-	(18)
Net nonoperating revenues (expenses)	<u>4</u>	<u>118</u>	<u>122</u>	<u>(98)</u>
Income (loss) before transfers	5	268	273	(1,771)
Capital contribution	-	-	-	275
Transfers in	-	508	508	-
Change in net assets	<u>5</u>	<u>776</u>	<u>781</u>	<u>(1,496)</u>
Total net assets - beginning	<u>(4)</u>	<u>3,195</u>		<u>12,163</u>
Total net assets/(deficit) - ending	<u>\$ 1</u>	<u>\$ 3,971</u>		<u>\$ 10,667</u>
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(1)	
Change in net assets of business-type activities			<u>\$ 780</u>	

**CHEROKEE NATION**

**STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2010  
(Dollars in Thousands)**

	Business-type Activities- Enterprise Funds			Governmental Activities- Internal Service Funds
	Title VI Loan Fund	Nonmajor Enterprise Funds	Total	
Cash flows from operating activities:				
Receipts from customers	\$ -	\$ 506	\$ 506	\$ 92,316
Internal activity - payments from other funds	-	(80)	(80)	-
Payments to suppliers	(24)	(429)	(453)	(16,170)
Payments to employees	-	(39)	(39)	(74,958)
Internal activity - payments from (to) other funds	3,969	(6)	3,963	(1,375)
Internal activity - payments to other Component Units	(1,057)	-	(1,057)	(22)
Internal activity - payments from other Component Units	-	56	56	-
Other receipts	-	174	174	1,346
Net cash provided by (used for) operating activities	<u>2,888</u>	<u>182</u>	<u>3,070</u>	<u>1,137</u>
Cash flows from noncapital financing activities				
Transfer from other funds	-	508	508	-
Principal payment on notes payable	(3,955)	(59)	(4,014)	-
Interest payment on notes payable	(470)	(15)	(485)	-
Net cash provided by (used for) noncapital financing activities	<u>(4,425)</u>	<u>434</u>	<u>(3,991)</u>	<u>-</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	-	(151)	(151)	(248)
Principal paid on capital debt	-	(107)	(107)	(815)
Interest paid on capital debt	-	(16)	(16)	(80)
Net cash used for capital and related financing activities	<u>-</u>	<u>(274)</u>	<u>(274)</u>	<u>(1,143)</u>
Cash flows from investing activities				
Interest received	474	149	623	-
Payments received on notes receivable	2,706	-	2,706	-
Decrease(increase) in notes receivable, net	-	(735)	(735)	-
Net cash provided by (used for) investing activities	<u>3,180</u>	<u>(586)</u>	<u>2,594</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	1,643	(244)	1,399	(6)
Cash and cash equivalents, October 1, 2009	<u>969</u>	<u>3,841</u>	<u>4,810</u>	<u>45</u>
Cash and cash equivalents, September 30, 2010	<u>\$ 2,612</u>	<u>\$ 3,597</u>	<u>\$ 6,209</u>	<u>\$ 39</u>
Cash and Cash Equivalents consist of:				
Unrestricted cash and cash equivalents	\$ 2,612	\$ 904	\$ 3,516	\$ 39
Restricted cash and cash equivalents	-	2,693	2,693	-
Total Cash and Cash Equivalents, September 30, 2010	<u>\$ 2,612</u>	<u>\$ 3,597</u>	<u>\$ 6,209</u>	<u>\$ 39</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 1	\$ 150	\$ 151	\$ (1,673)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	-	54	54	1,104
Change in assets and liabilities:				
Receivables, net	(813)	(4)	(817)	(1,260)
Inventories	-	-	-	3
Other current assets	-	1	1	(29)
Accounts and other payables	3,700	(19)	3,681	2,992
Net cash provided by (used for) operating activities	<u>\$ 2,888</u>	<u>\$ 182</u>	<u>\$ 3,070</u>	<u>\$ 1,137</u>

**CHEROKEE NATION**

**COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS  
SEPTEMBER 30, 2010  
(Dollars in Thousands)**

	Cherokee Nation Businesses, LLC (CNB)	Housing Authority of the Cherokee Nation (HACN)	Cherokee Nation Comprehensive Care Agency (CNCCA)	Cherokee Nation HomeHealth Services, Inc. (CNHHS)	Cherokee Nation Waste Management, LLC (CNWM)	Total
<b>ASSETS</b>						
Current assets:						
Cash and cash equivalents	\$ 34,311	\$ 1,603	\$ 504	\$ 179	\$ 1,243	\$ 37,840
Restricted cash	8,412	-	-	-	28	8,440
Investments	-	25,196	-	-	-	25,196
Receivables, net	27,661	627	-	328	157	28,773
Mortgages receivable-Title VI	-	558	-	-	-	558
Inventories	15,276	-	-	-	-	15,276
Notes receivable	18	-	-	-	-	18
Other current assets	4,824	130	11	49	29	5,043
Total current assets	<u>90,502</u>	<u>28,114</u>	<u>515</u>	<u>556</u>	<u>1,457</u>	<u>121,144</u>
Restricted investments	-	9,571	-	-	-	9,571
Notes receivable	1,342	235	-	-	-	1,577
Mortgages receivable-Title VI and partnerships	-	22,196	-	-	-	22,196
Other assets	5,038	1,001	-	-	-	6,039
Investment in partnerships/joint ventures	5,095	1,379	536	-	-	7,010
Capital assets, net	<u>457,850</u>	<u>65,632</u>	<u>1,722</u>	<u>717</u>	<u>9,660</u>	<u>535,581</u>
Total noncurrent assets	<u>469,325</u>	<u>100,014</u>	<u>2,258</u>	<u>717</u>	<u>9,660</u>	<u>581,974</u>
Total assets	<u>559,827</u>	<u>128,128</u>	<u>2,773</u>	<u>1,273</u>	<u>11,117</u>	<u>703,118</u>
<b>LIABILITIES</b>						
Current liabilities:						
Accounts payable and accrued liabilities	67,612	63	368	486	408	68,937
Due to primary government	3,374	435	56	-	121	3,986
Deferred revenue	-	475	-	-	-	475
Current portion of notes payable	-	1,888	-	-	-	1,888
Current portion of long-term debt	58	-	49	82	-	189
Total current liabilities	<u>71,044</u>	<u>2,861</u>	<u>473</u>	<u>568</u>	<u>529</u>	<u>75,475</u>
Trust Liabilities	-	8,035	-	-	-	8,035
Notes Payable	-	16,658	-	-	-	16,658
Long-term debt	18,000	-	1,397	484	-	19,881
Total noncurrent liabilities	<u>18,000</u>	<u>24,693</u>	<u>1,397</u>	<u>484</u>	<u>-</u>	<u>44,574</u>
Total liabilities	<u>89,044</u>	<u>27,554</u>	<u>1,870</u>	<u>1,052</u>	<u>529</u>	<u>120,049</u>
<b>NET ASSETS</b>						
Invested in capital assets, net of related debt	452,113	63,671	276	151	9,609	525,820
Restricted for:						
Debt service	-	2,571	-	-	-	2,571
Construction	4,104	-	-	-	28	4,132
Program services	-	32,952	-	-	-	32,952
Unrestricted net assets	<u>14,566</u>	<u>1,380</u>	<u>627</u>	<u>70</u>	<u>951</u>	<u>17,594</u>
Total net assets	<u>\$ 470,783</u>	<u>\$ 100,574</u>	<u>\$ 903</u>	<u>\$ 221</u>	<u>\$ 10,588</u>	<u>\$ 583,069</u>

## CHEROKEE NATION

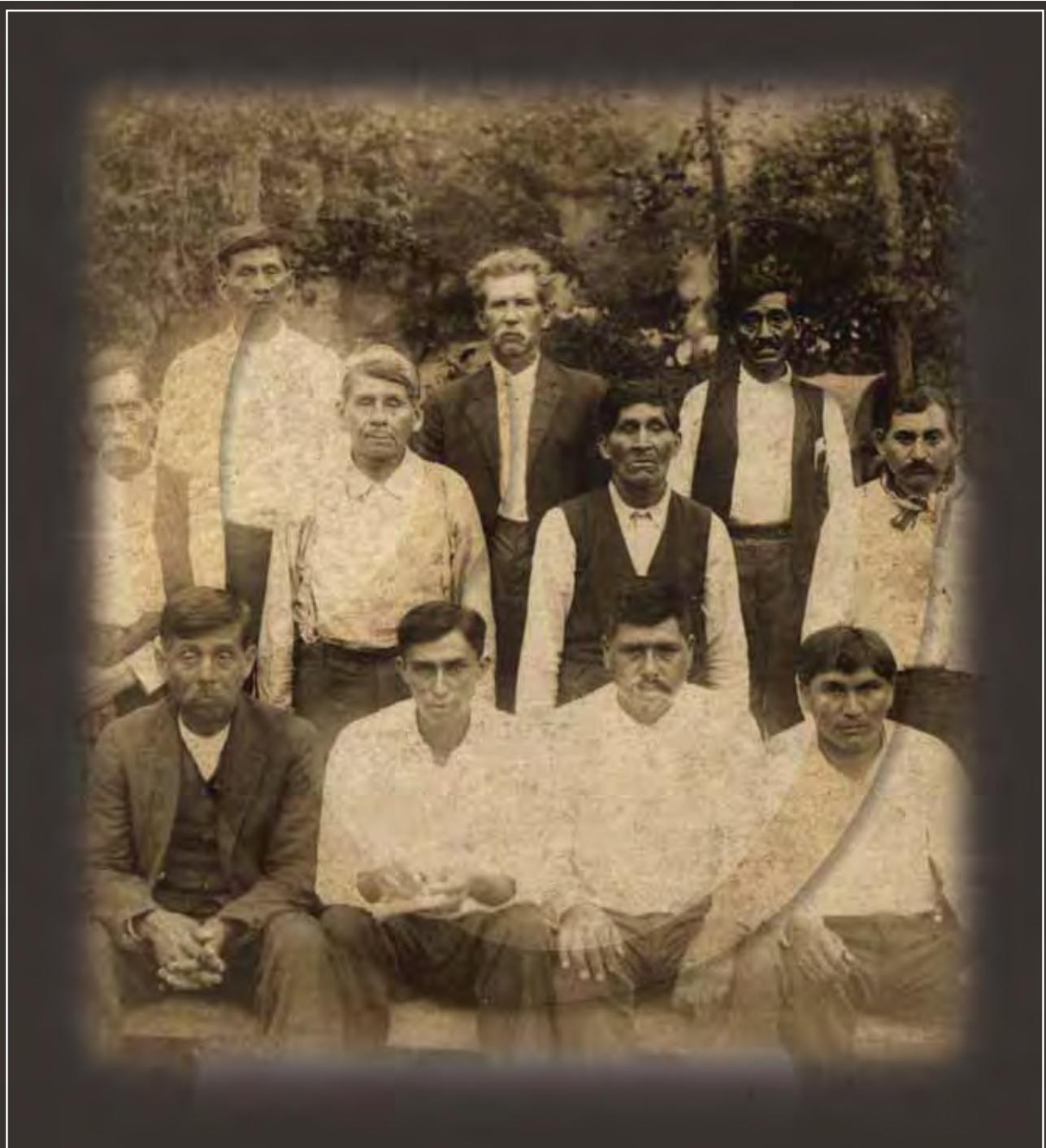
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
 COMPONENT UNITS  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010  
 (Dollars in Thousands)

	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 Nation Waste Management, LLC (CNWM)	Total
Operating revenues:						
Charges for services and goods	\$ 595,084	\$ 972	\$ 2,974	\$ 4,778	\$ 1,878	\$ 605,686
Income from investments in joint ventures	1,627	-	13	-	-	1,640
Other	-	313	(2)	85	-	396
Total operating revenues	596,711	1,285	2,985	4,863	1,878	607,722
Operating expenses:						
Cost of sales/operations	205,559	2,453	-	-	-	208,012
Salaries and wages	162,805	-	1,530	3,372	781	168,488
Other services and charges	105,729	40	1,528	1,407	912	109,616
Depreciation and amortization	35,315	4,111	100	84	1,675	41,285
Total operating expenses	509,408	6,604	3,158	4,863	3,368	527,401
Operating income (loss)	87,303	(5,319)	(173)	-	(1,490)	80,321
Nonoperating revenues (expenses)						
Grant revenue	-	945	-	-	-	945
Interest/investment income	148	1,446	2	1	1	1,598
Interest expense	(355)	(586)	(93)	(46)	-	(1,080)
Gain (loss) on disposal of assets	-	372	-	-	-	372
Other, net	445	-	37	4	-	486
Net nonoperating revenues (expenses)	238	2,177	(54)	(41)	1	2,321
Net Income (loss)	87,541	(3,142)	(227)	(41)	(1,489)	82,642
Dividends to primary government	(26,429)	-	-	-	-	(26,429)
Capital grants	(733)	-	-	-	-	(733)
Change in net assets	60,379	(3,142)	(227)	(41)	(1,489)	55,480
Net assets, beginning of year	410,404	103,716	1,130	262	12,077	527,589
Net assets, end of year	\$ 470,783	\$ 100,574	\$ 903	\$ 221	\$ 10,588	\$ 583,069

## CHEROKEE NATION

RECAST OF THE COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -  
 COMPONENT UNITS TO THE STATEMENT OF ACTIVITIES  
 FOR THE YEAR ENDED SEPTEMBER 30, 2010  
 (Dollars in Thousands)

	Discretely Presented Component Units	Government-wide - Statement of Activities				
		Program Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	General Revenues
Operating revenues:						
Charges for services and goods	\$ 605,686	\$ -	\$ 605,686	\$ -	\$ -	\$ -
Income from investments in joint ventures	1,640	-	-	-	-	1,640
Other	396	-	396	-	-	-
Total operating revenues	607,722	-	606,082	-	-	1,640
Operating expenses:						
Cost of sales/operations	208,012	208,012	-	-	-	-
Salaries and wages	168,488	168,488	-	-	-	-
Other services and charges	109,616	109,616	-	-	-	-
Depreciation and amortization	41,285	41,285	-	-	-	-
Total operating expenses	527,401	527,401	-	-	-	-
Operating income (loss)	80,321	(527,401)	606,082	-	-	1,640
Nonoperating revenues (expenses)						
Grant revenue	945	-	-	945	-	-
Interest/investment income	1,598	-	-	-	-	1,598
Interest expense	(1,080)	(1,080)	-	-	-	-
Gain on disposal of assets	372	-	-	-	-	372
Other, net	486	-	-	-	-	486
Net nonoperating revenues (expenses)	2,321	(1,080)	-	945	-	2,456
Net Income (loss)	82,642	(528,481)	606,082	945	-	4,096
Dividends to primary government	(26,429)	(26,429)	-	-	-	-
Capital grants	(733)	(733)	-	-	-	-
Change in net assets	55,480	(555,643)	606,082	945	-	4,096
Net assets, beginning of year	527,589	-	-	-	-	527,589
Net assets, end of year	\$ 583,069	\$ (555,643)	\$ 606,082	\$ 945	\$ -	\$ 531,685



# NOTES TO BASIC FINANCIAL STATEMENTS

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CHEROKEE NATION®

Comprehensive Annual Financial Report

**CHEROKEE NATION  
NOTES TO BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2010**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

**Reporting Entity** — The Nation is a 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 Cherokee Nation received, disbursed, or in the custody of the Nation or the Bureau of Indian Affairs ("BIA") and the United States Treasury, as its trustee, as well as all other funds and activities over which the Nation exercises financial accountability. The Nation's basic financial statements do not include the financial position or activities of various federal and state governmental agencies operating within tribal lands. The Nation determines its financial reporting entity in accordance with Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity," as amended by GASB No. 39, and based on that criterion, has included the following entities as component units within the Nation's basic financial statements:

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

**Cherokee Nation Businesses, LLC ("CNB")** — CNB, a tribal limited liability company, was created June 16, 2004, to provide shared services and strategic coordination to the Nation's business entities, to diversify the Nation's business holdings, and act as a holding corporation for certain Nation investments in business enterprises. The Nation created CNB and is able to exert significant influence over CNB's activities as a result of its relationship to CNB and board member appointments. CNB is managed through a board of

directors appointed by the Principal Chief of the Nation and approved by the Cherokee Nation Tribal Council. As of September 30, 2010, CNB held an interest in the following entities:

***Cherokee Nation Entertainment, LLC (“CNE”)*** — CNE is a tribal limited liability company organized under the laws of the Cherokee Nation (the “Nation”). The Nation conducts all of its gaming and entertainment activities through CNE. For reporting purposes, CNE is included as a blended component unit of CNB which is a discrete component unit of the Nation. CNE operates seven 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, convenience stores and gift shops. CNE’s gaming and entertainment operations include food and beverage venues, hotels and motels, live entertainment venues and an 18-hole and a 9-hole golf course. Separately issued financial statements for CNE may be obtained from CNB’s corporate office. CNE has two of its own blended component units as follows:

***Will Rogers Downs, LLC (“WRD”)*** — WRD is a tribal limited liability company organized under the laws of the Cherokee Nation created to own and operate a horse racing and gaming facility and ancillary activities on nontribal lands in Claremore, Oklahoma. CNE is the sole member owning 100% of the units of WRD. The CEO of CNE is the designated manager of WRD. Based on the foregoing criteria and in compliance with the provisions of Governmental Accounting Standards Board (“GASB”) No. 14, *The Financial Reporting Entity*, as amended by GASB 39, WRD is included as a blended component unit in CNE’s financial statements. Separately issued financial statements with additional disclosures may be obtained from CNB’s corporate office.

***Cherokee Hotels, LLC (“CHL”)*** — CHL is a tribal limited liability company, created on May 23, 2006, under the laws of the Cherokee Nation to own and operate motels currently located in Catoosa and Roland, Oklahoma. CNE is the sole member owning 100% of the units of CHL. The CEO of CNE is the designated manager of CHL. Based on the foregoing criteria and in compliance with the provisions of Governmental Accounting Standards Board (“GASB”) No. 14, *The Financial Reporting Entity*, as amended by GASB 39, CHL is included as a blended component unit in CNE’s financial statements.

***Cherokee Nation Industries, LLC (“CNI”)*** — CNI is a tribal limited liability company 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 engages primarily in the production, assembly, and repair of electronic component parts and wiring systems, construction, and the provisions of certain contract medical services and janitorial services for the U.S. Government.

CNI has five of its own blended component units. These include:

***Cherokee Nation Distribution, LLC (“CND”)*** – CND was organized to earn revenue predominately from production, distribution, assembly and repair of electronic component parts and wiring systems.

***Cherokee Nation Medical Services, LLC (“CMS”)*** and ***Cherokee Nation Health Services, LLC (“CNHS”)*** – CMS and CNHS were organized to earn revenue predominately from medical employee leasing contracts.

***Cherokee Nation Construction Services, LLC (“CNCS”)*** – CNCS was organized to earn revenue from construction related services, including general contracting, oversight of construction projects and safety training.

***Cherokee Nation Red Wing, LLC (“CNRW”)*** – CNRW was acquired in February 2009 and reorganized as a limited liability company. CNRW is a contract manufacturer of integrated electromechanical assemblies.

CND, CMS, CNHS, CNCS, CNRW, CNSS and CNPM are for-profit limited liability companies owned by CNB and created under the laws of the state of Oklahoma. CND, CMS, CNHS, CNCS, CNRW, CNSS and CNPM are blended with CNI because they are under common management.

***Cherokee Services Group, LLC (“CSG”)*** — CSG is a tribal limited liability company organized under the laws of the Nation for the purpose of marketing certain professional services to commercial enterprises, other tribes and state and federal governments. CSG has received 8(a) certification from the US Small Business Administration. CNB is the sole member of CSG which is included as a blended component unit of CNB. Separately issued financial statements with additional disclosures may be obtained from CNB’s corporate office.

***Cherokee Nation Technologies, LLC (“CNT”)*** – CNT is a tribal limited liability company created in 2009 for the purpose of marketing certain professional services to commercial enterprises. CNB was the sole member of CNT, which is included as a blended component unit of CNB.

***Cherokee Nation Technology Solutions, LLC (“CNTS”)*** – CNTS was organized to earn revenue from electronic component installation and sales. Effective October 1, 2009, management of CNTS was transferred from CNI to CNB. CNB was the sole member of CNTS, which is included as a blended component unit of CNB.

***Cherokee Nation Security and Safety, LLC (“CNSS”)*** – CNSS is a tribal limited liability company created in 2010 for the purpose of providing security and safety services. CNB was the sole member of CNSS, which is included as a blended component unit of CNB.

***Cherokee Nation Property Management, LLC (“CNPM”)*** – CNPM is a tribal limited liability company formed in 2010 to conduct real estate acquisitions and development for CNB. CNB was the sole member of CNPM, which is included as a blended component unit of CNB.

CNB directly holds joint venture interests in Cherokee CRC, LLC and Aerospace S.E., Inc. as described below:

***Cherokee CRC, LLC (“CCRC”)*** — CCRC was formed in March 2005 in Tulsa, Oklahoma, by CNB (51% ownership) and an individual (49% ownership). CNB accounts for the investment in CCRC using the equity method. The targeted business of CCRC, a Tribal-owned 8(a) firm is to engage in the business of providing services to customers in the business described in environmental consulting services, engineering services, remediation services, research and development in the physical, engineering and life sciences, testing laboratories, and for customers in homeland security under governmental contracts in which Section 8(a) status provides a competitive advantage.

**Aerospace S.E., Inc. (“APSE”)** — APSE was formed in 1987 in Huntsville, Alabama. On August 28, 2008, CNB acquired 75% of the stock of APSE, and APSE Holdings, LLC acquired 25%. APSE is a distributor of aerospace fasteners and a provider of supply chain services. APSE is headquartered in Huntsville and has offices in San Antonio, Texas and Wichita, Kansas. CNB accounts for the investment in APSE using the equity method.

**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. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, HACN is included in the Nation’s financial report as a discrete 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. 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. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, 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 health care 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 of the Nation and approved by the Cherokee Nation Tribal Council. Based on the foregoing criteria and in compliance with the provisions of GASB No. 14, *The Financial Reporting Entity*, as amended by GASB No. 39, CNCCA is included in the Nation’s financial report as a discrete component unit. CNCCA currently has two initiatives, which includes the Program of All-Inclusive Care for the Elderly (“PACE”) and a joint venture, Cherokee Health Partners, LLC (“CHP”).

**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 PACE program is financed primarily by Medicare and Medicaid.

**Cherokee Health Partners, LLC (“CHP”)** — CNCCA and the Tahlequah City Hospital entered into a joint venture on September 28, 2004, to create CHP which is 51% owned by CNCCA. CHP operates an imaging center located in the Tahlequah City Hospital. The initial services to be provided are nuclear scans of the bones, heart, and lungs. CNCCA has recognized its proportionate share of CHP’s earnings and distributions resulting in a carrying value of approximately \$536,000 for the joint venture at September 30, 2010.

**Cherokee Nation Home Health Services, Inc. (“CNHHS”)** — CNHHS, a tribal corporation, was organized for the purpose of engaging in home healthcare services. The 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. The CNHHS primarily earns revenues by providing home health, hospice and other services to residents of Cherokee and Delaware counties, Oklahoma, and the surrounding area.

**Cherokee Nation Waste Management, LLC (“CNWM”)** — CNWM is a tribal limited liability company organized in 2008 for the purpose of operating the Cherokee Nation Sanitary Landfill in Stilwell, Oklahoma, through an operating agreement with the Cherokee Nation. CNWM assumed many of the contractual obligations of the Nation relating to the landfill operations as of July 1, 2008, and is incurring various costs to meet those obligations. The CNWM Board of Directors are appointed by the Chief and approved by Tribal Council; therefore, for reporting purposes, CNWM is included as a discretely presented component unit of the Nation.

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

**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. EDTA is presented as a proprietary fund in the accompanying financial statements.

**Excluded Organizations** — During 2010, the following not for profit organizations did not meet the criteria for inclusion in the reporting entity as they are not individually material to the operations of the Nation, and accordingly their financial operations are excluded from this report.

Cherokee Nation Education Foundation

Cherokee National Historical Society

Beginning in fiscal year 2006, the Nation, CNE and the Cherokee National Historical Society (“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.

Cherokee Nation law requires that all corporations, majority owned by the Nation, and incorporated under Cherokee Nation law pay a dividend based on net income. The dividend rate was 30% for FY2010. CNB's minimum dividend requirement is determined at the combined CNB reporting level. Dividends paid to the Nation and other related party transactions are discussed in Note 17.

## **BASIS OF PRESENTATION**

**Government-Wide Financial Statements** — The government-wide financial statements provide operational accountability information for the Nation as an economic unit. The government-wide financial statements report the government's ability to maintain service levels and continue to meet its obligations as they come due. The statements include all governmental activities and all business-type activities of the primary government and its component units. 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 equity, revenues, expenditures/expenses, and transfers. The General Fund is always a major governmental fund. Other major funds are determined as funds whose revenues, expenditures/expenses, assets or liabilities are at least ten percent of the totals for all governmental or enterprise funds and at least five percent of the aggregate amount for all governmental and enterprise funds for the same item or funds designated as major at the discretion of the Nation. Funds not classified as a major fund are aggregated and presented in a single column in the fund financial statements. The Nation uses the following funds, grouped by fund type.

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

- **General Fund** — The General Fund represents the operating activities of the tribal government. All unrestricted resources not accounted for in other funds are reported in the General Fund.
- **Special Revenue Funds** — Special Revenue Funds are used to account for the proceeds of government grants or other specific revenue sources that are restricted by law or administrative action to finance particular functions or activities of the Nation. The following are the Nation's major Special Revenue Funds:
  - **Self Governance-DOI-Roads** — Established to account for funds received from the Department of Interior ("DOI") to expand the Nation's transportation activities such as planning, designing, constructing, and maintaining transportation facilities. Roads constructed with DOI funds are not capitalized by the Nation as they are transferred to other governmental agencies upon completion.

These expenditures are generally presented as community service expenditures in the accompanying financial statements.

- **Department of Transportation - DOT** – 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 of 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 service expenditures in the accompanying financial statements.
- **Self Governance-DHHS** — Established to account for funds received under the Nation’s Self Governance compact with the United States Department of Health and Human Services (“DHHS”). These funds are used to administer a number of programs under Indian Health Services (“IHS”) relating to health and human services including the operation of Hastings Hospital in Tahlequah, Oklahoma and clinics located in various communities throughout the Nation’s jurisdictional boundaries. These expenditures are generally presented as health and community services expenditures in the accompanying financial statements.
- **Housing and Urban Development** — Established to account for grant funds received from the Department of Housing and Urban Development (“HUD”) to improve living conditions and renovate homes of Indian residents. During fiscal year 2008, the majority of the services previously performed by the HACN, a discretely presented proprietary component unit of the Nation, were assumed by the Nation. These expenditures are generally presented as community service expenditures in the accompanying financial statements.
- **Capital Projects Funds** — Capital project funds are used to report resources that are used for major capital acquisition and construction separately from ongoing operational activities.
- **Debt Service Funds** — Debt service funds are used to report resources that are set aside to meet current and future debt service requirements on general long-term debt.
- **Permanent Funds** — Permanent funds are used to report resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes supporting the Nation’s programs. The Nation’s Permanent Funds contain two endowments, both of which allow the expenditure of income for tuition and educational purposes, with the principal being unavailable for disbursement. The trust agreements state the distributions of income shall go to individuals one-quarter or more of Cherokee blood quantum. All fund balances from the endowments are reserved.

- **Sequoyah Endowment** — The Sequoyah Endowment was established in fiscal year 1991 by the Louise K. Green-Matthews Grant in Environmental Science in the amount of \$134,000. It was established to foster and encourage Cherokee students of at least one-quarter blood quantum to engage in obtaining a graduate education in Environmental Science or Natural Sciences. The income from the trust is available to provide one to two grants annually. The amount of net appreciation on the investment of the Sequoyah Endowment is \$75,000 which is the available amount reflected in the fund balance.
- **Gammon Education Trust** — The Glenn and Faye Gammon Education Trust was established in fiscal year 2001 by a willed contribution of \$291,000 to provide Cherokee higher education scholarships. In accordance with the will, income from the trust is used to provide tuition and related educational, travel and living expenses for Cherokee students with a blood quantum of one-quarter or more. The amount of net appreciation on the investment of the Gammon Education Trust is \$1,000 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 assets of the governmental activities in the government-wide financial statements. These differences are further explained in Note 2 to the basic financial statements.

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

- **Enterprise Funds** — The enterprise funds are proprietary funds that are used to report activities for which a fee is charged to external users. The Nation accounts for its Title VI Loan Fund, Tsa-La-Gi Apartments, Landfill Closure, and Economic Development Trust Authority (“EDTA”) activities in these funds. The Nation’s only major enterprise fund is as follows:
  - **Title VI Loan Fund** — Established to account for borrowing and lending activities related to the United States Department of Housing and Urban Development Title VI loan agreement, the proceeds of which are obtained from federal government guaranteed bank financing and subsequently loaned to the Cherokee Nation Housing Authority, a component unit of the Nation.

- **Internal Service Funds** — Internal service funds are used to report activities which provide goods or services to other funds, departments, or agencies of the primary government and its component units, or to other governments, on a cost-reimbursement basis. The Nation includes services such as internal leases, fringe pool, and indirect cost pool in these funds. Substantially all internal service funds' net assets and activities are combined with the governmental activities in the government-wide financial statements. Note disclosures for governmental activities also include related amounts for the internal service funds.
- **Component Units** — See pages 38 - 42 for descriptions of discretely presented component units.

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

## **MEASUREMENT FOCUS AND BASIS OF ACCOUNTING**

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

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

**Basis of Accounting** — The accrual basis of accounting is used throughout the government-wide financial statements; conversely, the financial statements of the General Fund, Special Revenue Funds, 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.

The Nation implemented GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state, local and tribal governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. During the current year, the Nation entered into an interest rate swap agreement (derivative instrument) with a financial institution. The financial impact of the implementation on the Nation during the year is further discussed in Note 10 on pages 70 – 73.

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

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

**Restricted Cash and Cash Equivalents** — Amounts represent certain bank account balances restricted for specific purposes as described in Note 3.

**Investments** —The Nation reports investments at fair value. Fair value is determined using quoted market prices.

**Accounts Receivable** – Amounts represent revenue recognized but not yet received in the current period. Accounts receivable are presented in the balance sheet at net realizable value.

### **Inventories**

- Except as noted below, inventories of governmental funds are recorded as expenditures when purchased rather than when consumed.
- The Nation, through its participation in the Clinics Program, 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 received for disbursement from Cherokee Nation’s Food Distribution program. Food acquisitions are initially recorded as inventory and as deferred revenue and are charged to expenditures as used, using the First In, First Out (“FIFO”) method. Food inventories are valued at the cost assigned to such food items by the granting agency.
- The Nation maintains an inventory of housing materials to be used in the construction of the Homeownership Build Packages. This is a self-help program where clients will provide a majority of the work and will reimburse the Nation for the cost of materials.
- 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 FIFO method. Cost of supplies is determined by the average cost method with retail inventories stated using FIFO.

**Other Current Assets** — Amounts represent prepayments for supplies, pharmaceuticals and other expenditures.

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

<u>Class of Asset</u>	<u>Estimated Useful Life</u>
Buildings and improvements	20-50 years
Equipment	3-20 years
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. Activities such as the Nation’s gaming activities can only be conducted on land held in trust status. When land is placed into trust status, the title to the property is transferred to the Federal Government. Under generally accepted accounting principles, this land is removed from the books of the Nation or its component units since the Nation no longer has title to the land. At September 30, 2010, 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.

GASB Statement No. 51 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 in the accompanying financial statements. See Note 17 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.

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

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

**Landfill 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, that is now operated by CNWM LLC, a discretely presented component unit of the Nation. 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, 2010 is based on the assumption that the Landfill will be operated by CNWM 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”) and have been reflected within operating expenses in the Statement of Revenues, Expenses, and Changes in Net Assets. Total payments for fiscal year 2010 were approximately \$151,000.

**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 assets date plus an additional amount for compensation-related payments such as social security and medicare taxes compiled using rates in effect at that date.

Upon request from the employee and approval by the supervisor and Human Resources, the Cherokee Nation annually buys back designated amounts of accrued annual leave from Regular/Full Time and Regular/Part Time employees, subject to restrictions based on funding agency guidelines as well as fund availability. In Fiscal Year 2010, the Cherokee Nation bought back \$1,123,000 of accrued annual leave.

## **Net Assets Classifications**

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

1. *Invested in capital assets, net of related debt* — Consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings attributable to the acquisition, construction, or improvement of those assets.
2. *Restricted net assets* — Consists of net assets with constraints placed on the use either by external groups, such as grantors and creditors, or laws and regulations of other governments, or law through Tribal constitutional provisions or enabling legislation. It is the Nation’s policy to use restricted net assets prior to the use of unrestricted net assets when both restricted and unrestricted net assets are available for an expense which has been incurred.
3. *Unrestricted net assets* — All other assets that do not meet the definition of “restricted” or “invested in capital assets, net of related debt.”

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

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

**Program Revenues** — There are two classifications of programmatic revenues for the Nation, grant revenue and program revenue. Grant revenues are revenues from federal, state, and private grants. These revenues are recognized when all applicable eligibility requirements are met and are reported as intergovernmental revenues. The primary source of program revenue is earned income in connection with the operation of the Nation's WW 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 during the year ended September 30, 2010 was approximately \$58 million.

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

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

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

**Interest Income-Grants** — The Nation receives certain amounts of advance funding in connection with four large grants: (1) NAHASDA, funded by HUD, (2) the Sequoyah High School Grant, which is funded by the DOI, (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 deferred revenue (overrecovered) or a deferred charge (underrecovered) and reversed in the period the difference is used to adjust the indirect cost rate.

**Budgets and Budgetary Accounting Policies** — Title 62, §31-32 provides the legal level of budgetary control for the Cherokee Nation. The Executive and Finance Committee of the Council, upon direction of the Treasurer and with advisement from the Controller, shall formulate an annual appropriations bill. The bill shall contain the legal budgeted annual revenue and expenditures/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 assets. The Executive and Finance Committee of the Council, upon direction of the Treasurer and with advisement from the Controller, shall be responsible for proposing amendments to the annual appropriations law based upon material changes in real or estimated revenues and expenditures/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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reported period. Actual results could differ from those estimates.

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

The governmental funds balance sheet includes a reconciliation of total fund balances of the governmental funds to the total net assets of the governmental activities in the statement of net assets. One element of that reconciliation explains that “capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported in the funds.” The details of this \$89,171,000 capital assets used in governmental activities are as follows (dollars in thousands):

Capital assets, net	\$ 101,567
Less: Internal service fund capital assets	<u>(12,396)</u>
Capital assets used in governmental activities	<u>\$ 89,171</u>

The next element of the reconciliation is the amount of \$2,531,000 which states “the assets recorded in government-wide financial statements that are not available to pay for current period expenditures, therefore, are not recorded in the funds.” (dollars in thousands)

Debt Issuance Costs - governmental funds, beginning of year	\$ 1,294
Deferred Outflow	834
Amortization of debt issuance costs - governmental funds	(72)
Donated assets	<u>475</u>
Net Adjustment to increase fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 2,531</u>

The final element of that reconciliation, excluding the net assets of the internal service funds of \$10,730,000, explains that “liabilities are not due and payable in the current period and, therefore, not reported in the funds.” The details of this \$47,963,000 difference are as follows (dollars in thousands):

Long-term debt - governmental funds	\$ 46,804
Fair value of swap agreement	834
Accrued bond interest - governmental funds	<u>325</u>
Net Adjustment to decrease fund balance - total governmental funds to arrive at net assets - governmental activities	<u>\$ 47,963</u>

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

One element of this reconciliation explains “governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.” The details of this \$605,000 difference are as follows (dollars in thousands):

Capital expenditures in governmental funds capitalized on government-wide financial statements	\$ 7,489
Depreciation expense	<u>(6,884)</u>
Net Adjustment to increase net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 605</u>

Another element of that reconciliation states that “the issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.” The details of this \$21,924,000 difference are as follows (dollars in thousands):

Debt principal payments	\$ 2,148
Amortization of debt issuance costs	(72)
Proceeds from long term debt - capital projects	<u>(24,000)</u>
Net adjustment to increase changes in fund balances- total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ (21,924)</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 \$452,000 difference are as follows (dollars in thousands):

Additional capital outlay expense and loss on disposal	\$ 430
Bond interest expense	<u>22</u>
Net adjustment to increase changes in fund balance - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 452</u>

Another element of that reconciliation states that “contributions of capital assets recorded as revenue in government-wide financial statements but not recorded at governmental fund level.” This amount is \$989,000. Another element of that reconciliation states that “contributions of other assets recorded as revenue in government-wide financial statements but not recorded at governmental fund level.” This amount is \$475,000.

The final element of that reconciliation states that “the internal service funds are used to account for those activities which provide services to other functions within the government. These costs are allocated to the governmental activities in the government-wide financial statements. This amount, \$1,495,000 is the net effect of the allocations.”

### 3. DEPOSITS AND INVESTMENTS

Custodial credit risk is the risk that in the event of a bank failure, the Nation’s deposits may not be returned. Cherokee Nation statute requires that funds be deposited in a financial institution insured either by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation. All balances in excess of insurance limits require pledged collateral from the financial institution. Deposits of the primary government are generally insured or covered by pledged

collateral. At September 30, 2010, there were deposits uninsured and under collateralized by \$1,176,000 which were corrected on October 1, 2010. Component units' deposits of \$5,012,000 at September 30, 2010 were uninsured and uncollateralized.

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

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

CNB and its component units' interest rate risk was minimized by the highly liquid nature of its deposits and investments. At September 30, 2010 all deposits and investments were highly liquid and generally subject to re-pricing on a short-term basis.

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

Concentration of credit risk is the risk of loss attributed to the magnitude of the Nation's investment in a single issuer. The Nation's investment policy does not specifically address concentration of credit risk. Of the total primary government's investments, \$3,249,000, or 43%, is invested in Fannie Mae securities, \$590,000, or 7%, is invested in Federal Farm Credit Bank securities, \$1,749,000, or 23%, is invested in Federal Home Loan Mortgage Corporation securities and \$2,055,000 or 27%, is invested in Federal Home Loan Bank securities.

CNB and its component units' follow the investment policy of the Nation in determining investment choices. Deposits in money market mutual funds, which totaled \$5,848,000 at September 30, 2010, were rated AAA by Standard and Poor's.

At September 30, 2010 cash and cash equivalents include \$12,017,000 in repurchase agreements at banks under which CNB owned securities with an implicit rating of AAA.

On December 10, 2007, CNE was notified by Bank of America that the Columbia Strategic Cash Portfolio ("Portfolio") managed by Columbia Management Group, LLC ("Columbia"), the investment management division of Bank of America, had been closed to new deposits and cash withdrawals. CNE's balance in the Portfolio on the date of the closing was approximately \$84.8 million (84.8 million units at \$1 net asset value per unit ("NAV")). CNE had the option of taking its proportionate share of the underlying investments as an in-kind distribution, but elected to remain in the Portfolio. The Portfolio was liquidated and distributed to investors at Columbia's discretion based on

maturities and sales of underlying assets in the Portfolio. Total distributions received by CNE were \$79.8 million or 84.8 million units. At September 30, 2010, the Portfolio was fully liquidated.

CNI has investments in marketable equity securities at September 30, 2010, which consist primarily of an investment in the common stock of a company providing video monitoring of hospital patients that can be linked into local area networks or internet feeds with medical staff and patients' families. This stock was obtained by CNI in exchange for stock and related assets that had previously been written off by CNI and the release of various legal rights and claims which CNI could pursue. CNI's investment in this company is less than 1% of the outstanding stock of the company. CNI has valued this investment at approximately \$428,000 at September 30, 2010, which reflects a discount from the quoted market value, due to the limited historical trading volume of the stock and the limited historical operations of the company. This investment is included in other assets in the accompanying statement of net assets at September 30, 2010, and the impact on the change in net assets is included in other, net nonoperating revenues in the component units combining statement of revenues, expenses and changes in net assets for the year ended September 30, 2010.

Investments, categorized as to interest and credit risk, at September 30, 2010 were as follows (dollars in thousands):

<b>Investment Type</b>	<b>Investment Maturities (in Years)</b>					<b>Credit Rating Moody's/S&amp;P</b>
	<b>Fair Value</b>	<b>Less Than 1</b>	<b>1 - 5</b>	<b>6 - 10</b>	<b>More Than 10</b>	
Primary Government:						
Money market mutual funds	\$ 2,720	\$ 2,720	\$ -	\$ -	\$ -	(1)
Government sponsored entities	<u>7,643</u>	<u>257</u>	<u>223</u>	<u>515</u>	<u>6,648</u>	Aaa/AAA
Total Primary Government	<u>\$ 10,363</u>	<u>\$ 2,977</u>	<u>\$ 223</u>	<u>\$ 515</u>	<u>\$ 6,648</u>	
Component Units:						
Money market funds	\$ 6,236	\$ 6,236	\$ -	\$ -	\$ -	(1)
Government sponsored entities	4,886	2,864	2,022	-	-	AAA/Aaa
Repurchase agreement	<u>12,017</u>	<u>12,017</u>	<u>-</u>	<u>-</u>	<u>-</u>	AAA
Total Component Units	<u>\$ 23,139</u>	<u>\$ 21,117</u>	<u>\$ 2,022</u>	<u>\$ -</u>	<u>\$ -</u>	

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

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

Investments as presented above:	\$ 10,363
Plus Certificates of Deposit reported as investments	5,358
Less Money market funds reported as Restricted Cash & Cash Equivalents & Investments	(2,271)
Less Money market funds reported as Cash & Cash Equivalents & Investments	<u>(449)</u>
Total investments	<u>\$ 13,001</u>

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

Investments as presented above:	\$ 23,139
Plus Certificates of Deposit reported as investments	19,922
Less Money market funds reported as Restricted Cash & Cash Equivalents & Investments	(5,848)
Less Repurchase agreement reported as Cash & Cash Equivalents	<u>(12,017)</u>
Total investments	<u>\$ 25,196</u>

**Restricted Cash, Cash Equivalents and Investments** — Restricted cash, cash equivalents and investments and reserved cash at September 30, 2010 included the following (dollars in thousands):

Primary Government

Tenant security deposits held in trust, replacement reserves and mortgage escrow deposits for Tsa-La-Gi	\$ 345
Capital replacement, closure and postclosure care costs of the Landfill Closure fund	2,348
Balance in Motor Fuel Tax Education Trust	25,331
Motor Fuel Tax Scholarship Reserve	4,214
Scholarship funds	501
Arkansas River Drybed Lands Settlement	2,271
Balance of funds accumulated for Debt service payments	1,709
Unspent loan proceeds in the Capital Projects fund for construction of the Vinita Clinic	24,021
District Court escrow account	11
Kids Connection - Non-CN Grant to a Third Party	<u>5</u>
Total Primary Government restricted cash, cash equivalents and investments	<u>\$ 60,756</u>

Component Units

Escrow relating to the Title VI loan with a bank (see Note 8)	\$ 2,571
HACN's lease-to-own homeownership program monthly equity payments	7,000
CNE and CNWM's construction escrow funds	4,032
Pari-mutuel horse racing activities funds	<u>4,408</u>
Total Component Unit restricted cash, cash equivalents and investments	<u>\$ 18,011</u>

**4. RECEIVABLES**

Receivables for primary government at September 30, 2010 consisted of the following (dollars in thousands):

	<b>Primary Government</b>				
	<b>Accounts Receivable</b>			<b>Total</b>	<b>Notes Receivable</b>
	<b>Grants &amp; Contracts Receivable</b>	<b>Accounts Receivable</b>	<b>Interest Receivable</b>		
Governmental Receivables:					
General					
Motor fuel taxes	\$ -	\$ 2,026	\$ -	\$ 2,026	\$ -
Other taxes	-	20	-	20	-
Other accounts receivable	-	388	-	388	-
Special Revenue Funds	7,224	8,372	59	15,655	84
Other - Internal Service Funds	-	(4)	-	(4)	-
Receivables of Governmental Activities	<u>\$ 7,224</u>	<u>\$ 10,802</u>	<u>\$ 59</u>	<u>\$ 18,085</u>	<u>\$ 84</u>
Business-type Activities:					
Landfill closure	\$ -	\$ -	\$ 1	\$ 1	\$ -
Notes receivable, current	-	-	-	-	2,871
Long term notes receivable	-	-	-	-	17,688
	-	-	1	1	20,559
Less: Allowance for uncollectible accounts	-	-	-	-	(353)
Receivables of Business-type Activities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 20,206</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 WW Hastings Hospital and clinics.

Receivables for component units at September 30, 2010 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>CNWM</b>	
Receivables:						
Accounts	<u>\$ 27,863</u>	<u>\$ 214</u>	<u>\$ -</u>	<u>\$ 339</u>	<u>\$ 157</u>	<u>\$ 28,573</u>
Interest	-	413	-	-	-	413
Notes	1,360	22,989	-	-	-	24,349
	1,360	23,402	-	-	-	24,762
Less: Allowance for uncollectibles	(202)	-	-	(11)	-	(213)
Receivables, net	<u>\$ 29,021</u>	<u>\$ 23,616</u>	<u>\$ -</u>	<u>\$ 328</u>	<u>\$ 157</u>	<u>\$ 53,122</u>

**Mortgages receivable — Title VI** — HACN has mortgages receivable at September 30, 2010 totaling \$22,754,000 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, 2010 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, 2010,

the current and non-current portions of these mortgages receivable were \$558,000 and \$22,196,000, respectively. The Nation has a related note receivable from HACN recorded in its Business-Type Activities.

## 5. INTERFUND TRANSFERS AND BALANCES

Interfund transfers for the year ended September 30, 2010 consisted of the following (dollars in thousands):

<u>Category and Fund</u>	<u>Transfers from Other Funds</u>	<u>Transfers to Other Funds</u>
Governmental Activities:		
Governmental Funds:		
General	\$ 1,258	\$ (1,691)
Self Governance DOI Roads	-	(285)
Department of Transportation	-	(28)
Self Governance DHHS	-	(18,394)
Housing & Urban Development	297	(190)
Capital Projects Fund	14,941	-
Nonmajor Governmental Funds	4,695	(1,111)
Total Governmental Funds	<u>21,191</u>	<u>(21,699)</u>
Total Governmental Activities	<u>21,191</u>	<u>(21,699)</u>
Business-type Activities:		
Proprietary Funds:		
Nonmajor Enterprise Funds	508	-
Total Proprietary Funds	<u>508</u>	<u>-</u>
Total Business-type Activities	<u>508</u>	<u>-</u>
Total Primary Government	<u>\$ 21,699</u>	<u>\$ (21,699)</u>
Reconciliation to Government-Wide Statement of Activities:		
Governmental Activities:		
Transfers In	\$ 21,191	
Transfers Out	<u>(21,699)</u>	
Net Transfer Governmental Activities		<u>\$ (508)</u>
Business-type Activities:		
Transfers In	\$ 508	
Transfers Out	<u>-</u>	
Net Transfer Business-type Activities		<u>\$ 508</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, 2010 consisted of the following (dollars in thousands):

<u>Category and Fund</u>	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Governmental Activities:		
Governmental Funds:		
General	\$ 9,851	\$ -
Self Governance DOI Roads	-	1,484
Department of Transportation	-	928
Self Governance DHHS	-	29,808
Housing & Urban Development	-	3,139
Capital Projects Fund	14,642	-
Nonmajor Governmental Funds	-	7,537
Total Governmental Funds	<u>24,493</u>	<u>42,896</u>
Internal Service Funds	<u>24,724</u>	<u>2,661</u>
Total Governmental Activities	<u>49,217</u>	<u>45,557</u>
Business-type Activities:		
Proprietary Funds:		
Title VI Loan Fund	-	3,725
Nonmajor Enterprise Funds	80	15
Total Proprietary Funds	<u>80</u>	<u>3,740</u>
Total Business-type Activities	<u>80</u>	<u>3,740</u>
Total Primary Government	<u>\$ 49,297</u>	<u>\$ 49,297</u>
Reconciliation to Government-Wide Statement of Net Assets:		
Governmental Activities:		
Due from Other Funds	\$ 49,217	
Due to Other Funds	<u>(45,557)</u>	
Net Internal Balances		<u>\$ 3,660</u>
Business-type Activities:		
Due from Other Funds	\$ 80	
Due to Other Funds	<u>(3,740)</u>	
Net Internal Balances		<u>\$ (3,660)</u>

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

During the year ended September 30, 2010, the Self Governance DHHS Fund recorded a transfer of approximately \$15 million to the Capital Projects Fund to reflect a commitment to provide funding for the planned construction of a clinic in Vinita Oklahoma and other health clinic projects.

## 6. INVENTORIES

The Nation's inventories were comprised of the following at September 30, 2010 (dollars in thousands):

	<b>Governmental Funds</b>	<b>Internal Service Funds</b>	<b>Component Units</b>
Finished goods and raw materials	\$ 395	\$ -	\$ 19,979
Food for distribution	919	-	-
Supplies	<u>2,131</u>	<u>131</u>	<u>-</u>
	3,445	131	19,979
Less inventory reserves	<u>-</u>	<u>-</u>	<u>(4,703)</u>
Total inventories	<u>\$ 3,445</u>	<u>\$ 131</u>	<u>\$ 15,276</u>

The majority of the component unit inventory at September 30, 2010 relates to CNI, a component unit of CNB, engaged in the production, assembly, and repair of electronic component parts for the telecommunications and other industries.

## 7. CAPITAL ASSETS

A summary of capital assets activity by major class, for the year ended September 30, 2010 follows (dollars in thousands):

### Governmental Activities

	Balance, September 30, 2009	Additions	Reductions	Balance, September 30, 2010
<b>Activity by Major Class</b>				
Capital assets, not being depreciated:				
Land	\$ 15,243	\$ 422	\$ -	\$ 15,665
Construction in process	410	1,642	(410)	1,642
Total capital assets, not being depreciated	<u>15,653</u>	<u>2,064</u>	<u>(410)</u>	<u>17,307</u>
Capital assets being depreciated:				
Buildings and improvements	80,275	1,991	(150)	82,116
Equipment	37,211	5,179	(1,527)	40,863
Land improvements	590	216	-	806
Total capital assets being depreciated	<u>118,076</u>	<u>7,386</u>	<u>(1,677)</u>	<u>123,785</u>
Less accumulated depreciation for:				
Buildings and improvements	(13,219)	(2,232)	-	(15,451)
Equipment	(20,680)	(4,628)	1,319	(23,989)
Land improvements	(61)	(24)	-	(85)
Total accumulated depreciation	<u>(33,960)</u>	<u>(6,884)</u>	<u>1,319</u>	<u>(39,525)</u>
Total capital assets being depreciated, net	<u>84,116</u>	<u>502</u>	<u>(358)</u>	<u>84,260</u>
Activity by major class capital assets, net	<u>\$ 99,769</u>	<u>\$ 2,566</u>	<u>\$ (768)</u>	<u>\$ 101,567</u>

Depreciation expense was charged to functions as follows:

#### Governmental activities:

Tribal Government	\$ 2,017
Health Services	3,444
Education Services	432
Human Services	194
Community Services	<u>797</u>

Total Governmental activities depreciation expense \$ 6,884

**Business-type Activities**

	<b>Balance, September 30, 2009</b>	<b>Additions</b>	<b>Reductions</b>	<b>Balance, September 30, 2010</b>
Capital assets, not being depreciated -				
Land	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 81</u>
Capital assets being depreciated:				
Buildings and improvements	<u>1,737</u>	<u>151</u>	<u>-</u>	<u>1,888</u>
Total capital assets being depreciated	<u>1,737</u>	<u>151</u>	<u>-</u>	<u>1,888</u>
Less accumulated depreciation for:				
Buildings and improvements	<u>(1,270)</u>	<u>(54)</u>	<u>-</u>	<u>(1,324)</u>
Total accumulated depreciation	<u>(1,270)</u>	<u>(54)</u>	<u>-</u>	<u>(1,324)</u>
Total capital assets being depreciated, net	<u>467</u>	<u>97</u>	<u>-</u>	<u>564</u>
Business-type activities capital assets, net	<u>\$ 548</u>	<u>\$ 97</u>	<u>\$ -</u>	<u>\$ 645</u>

	September 30, 2009	Additions	Reductions	September 30, 2010
CNB and HACN:				
Capital assets, not being depreciated:				
Land	\$ 42,440	\$ 3,050	\$ (3,345)	\$ 42,145
Construction in progress	19,605	68,106	(81,380)	6,331
Artwork	<u>957</u>	<u>508</u>	<u>(6)</u>	<u>1,459</u>
Total capital assets not being depreciated	<u>63,002</u>	<u>71,664</u>	<u>(84,731)</u>	<u>49,935</u>
Capital assets being depreciated:				
Buildings and improvements	450,645	60,180	(3,154)	507,671
Machinery and equipment	<u>144,030</u>	<u>24,518</u>	<u>(6,306)</u>	<u>162,242</u>
Total capital assets being depreciated	<u>594,675</u>	<u>84,698</u>	<u>(9,460)</u>	<u>669,913</u>
Less accumulated depreciation for:				
Buildings and improvements	(94,270)	(14,318)	2,386	(106,202)
Machinery and equipment	<u>(69,624)</u>	<u>(24,532)</u>	<u>3,992</u>	<u>(90,164)</u>
Total accumulated depreciation	<u>(163,894)</u>	<u>(38,850)</u>	<u>6,378</u>	<u>(196,366)</u>
Total capital assets being depreciated, net	<u>430,781</u>	<u>45,848</u>	<u>(3,082)</u>	<u>473,547</u>
CNB and HACN activities capital assets—net	<u>493,783</u>	<u>117,512</u>	<u>(87,813)</u>	<u>523,482</u>
Other Component Unit activities – CNHHS, CNCCA and CNWM capital assets, net	<u>13,063</u>	<u>8,958</u>	<u>(9,922)</u>	<u>12,099</u>
Total of the Component Unit activities—capital assets, net	<u>\$ 506,846</u>	<u>\$ 126,470</u>	<u>\$ (97,735)</u>	<u>\$ 535,581</u>

## 8. LONG-TERM DEBT

Long-term debt activity for the year ended September 30, 2010 was as follows (dollars in thousands):

<u>Governmental Activities</u>	Balance, October 1, 2009	Additions	Reductions	Balance, September 30, 2010	Current Portion	Long-Term Portion
<b>Notes Payable</b>						
3.7% Note payable to Bank of America. See (1) below.	\$ 2,051	\$ -	\$ (534)	\$ 1,517	\$ 552	\$ 965
Note payable to BOK in fixed principal payments. See (2) below.	-	24,000	(267)	23,733	1,600	22,133
Series 2006 Bonds payable with a pledge of revenues from Health Care System with semi-annual interest payments and annual principal and interest payments. Coupon rate ranges from 4.10% to 4.6%. Payments began December 2007 and bonds mature beginning December 2011. See (3) below.	23,565	-	(1,595)	21,970	1,660	20,310
2.5% Note Payable to Chase Bank. See (4) below.	-	158	(2)	156	156	-
<b>Capital Leases</b>						
Capital lease payable to Kronos Inc. with monthly payments of \$23 including interest of 8.63% and final payment due in November 2010. Secured by related equipment.	281	-	(281)	-	-	-
Capital leases payable to BOKF Equipment Finance, Inc. with monthly payments of \$26 including interest of 3.55% due in March 2013. Secured by related equipment	1,014	-	(285)	729	269	460
Total long-term debt	<u>\$ 26,911</u>	<u>\$ 24,158</u>	<u>\$ (2,964)</u>	<u>\$ 48,105</u>	<u>\$ 4,237</u>	<u>\$ 43,868</u>

- (1) In May 2003, the Nation entered into a \$5,000,000 financing agreement with a bank to fund capital improvement projects and to re-finance the 1992 Series Revenue Bonds. This note bears interest at 3.7% per annum, in monthly principal and interest installments of \$49,913 with final payment due in May 2013.
- (2) This note, along with additional funding from the SG DHHS Fund, will provide the funding for the construction of a new clinic in Vinita. The revenues and expenditures relating to the construction of the new Vinita Clinic are being 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 1.25 basis points if the note is secured by U.S. Treasuries. At September 30, 2010, the note was secured by a \$24,000,000 certificate of deposit reported in the Nation's General Fund. The Nation entered into a swap agreement with Bank of Oklahoma to fix the interest rate on the \$24 million loan. The swap agreement 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.

The Vinita Clinic is being constructed and operated in accordance with a Joint Venture Construction Program Agreement ("JVCP") between the Nation and the Indian Health Service ("IHS"), Department of Health and Human Services dated May 14, 2010. The Nation will plan, design, construct, equip, lease and operate the Vinita Clinic according to IHS specifications. The IHS will provide funds to staff and equip the facility in accordance with the joint venture agreement and the self-governance compact. The JVCP agreement provides that the Nation is responsible for constructing the Vinita Clinic. Upon completion of the Vinita Clinic, the IHS will enter into a "no-cost lease" with the Nation. The no-cost lease is not intended to convey any real property interest in the 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 will not directly provide services at the Vinita Clinic. IHS funding for the operation of the Vinita Clinic will be provided to the Nation through the Funding Agreements.

- (3) The Nation issued their \$30,000,000 Series 2006 Health Care System Bonds on December 21, 2006. The bonds were issued to fund construction of new clinics in Muskogee and Nowata and an administrative annex for the Redbird Smith clinic in Sallisaw. The bonds carry a coupon rate of 4.1- 4.6% and mature in three phases beginning in 2011. The bonds are secured by a pledge of the health services 3<sup>rd</sup> party revenue and a general obligation of the Nation. A monthly debt service reserve of approximately \$219,000 is transferred to the bond trustee, Bank of Oklahoma Trust Services. The bonds were insured through ACA Capital and carried a Standard & Poor's "A" rating. The underwriter for the bond issuance was BOSCO, Inc., a subsidiary of BOK Financial Corporation.
- (4) Note payable to Chase Home Financial for a mortgage assumed in connection with a property acquired through an endowment. The note balance is being reported as current since it is the Nation's intent to sell the property.

The balance of long-term debt for business-type activities at September 30, 2010 was \$18,169,000. The balance of Long-Term Debt for Component Units at September 30, 2010 was \$38,616,000. Long-term debt in the business-type activities and component units at September 30, 2010 consisted of the following (dollars in thousands):

<u>Business-type Activities</u>	Balance, October 1, 2009	Additions	Reductions	Balance, September 30, 2010	Current Portion	Long-Term Portion
<b>Title VI Loan Fund</b>						
Note payable to bank in fixed principal payments. See (1) below.	\$ 20,539	\$ -	\$ (3,954)	\$ 16,585	\$ 1,854	\$ 14,731
<b>Tsa-La-Gi Apartments</b>						
6.875% note payable to the U.S. Department of Housing & Urban Development (HUD) in monthly installments of \$10 including interest, with final payment due 2012, secured by certain land and buildings.	295	-	(107)	188	114	74
<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 October 16, 2030.	<u>1,456</u>	<u>-</u>	<u>(60)</u>	<u>1,396</u>	<u>24</u>	<u>1,372</u>
Total	<u>\$ 22,290</u>	<u>\$ -</u>	<u>\$ (4,121)</u>	<u>\$ 18,169</u>	<u>\$ 1,992</u>	<u>\$ 16,177</u>

(1) 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 are divided into two separate "pools" which carry different interest rates over the life of the loan. Pool A, with a balance at September 30, 2010 of \$2,964,000 carries an interest rate of 6.7%. Pool B, with a balance at September 30, 2010 of \$13,621,000 carries a variable interest rate, reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2010 was 0.96%. Pool A is repayable in monthly principal payments of \$54,358 through May 1, 2022, plus interest. Pool B requires monthly principal payments of \$100,150 through June 1, 2022, plus interest. The loan matures in December 2022. The loan proceeds were transferred to the HACN under a loan agreement between the Nation and the HACN to provide funding for construction or acquisition of single-family homes within the Nation's fourteen county jurisdictional area. The HACN provided construction and acquisition of housing for eligible participants using Title VI loan proceeds "drawn down" through the Nation. As part of its participation in the Title VI loan, the HACN was required to deposit securities in escrow with JP Morgan Chase, formerly Bank One, in an amount equal to five percent of the total loan balance, or approximately \$2,500,000. These securities are being pledged as collateral for the Title VI loan to cover the portion of the loan balance not guaranteed by HUD. The interest and dividends generated on these securities remains the property of the HACN. As collateral for the Title VI loan, the Nation has pledged all current and future grants for which the borrower becomes eligible under NAHASDA as well as program income directly generated from the use of the loan proceeds, program income derived from the sale or lease of real property acquired, rehabilitated or constructed with loan proceeds, and the securities deposited to the Pledge Account. Any program income generated from the above is required to be deposited into a "Loan Repayment Account" to serve as an additional source of payment of principal and interest related to the Title VI loan. The Nation's note receivable from HACN at September 30, 2010 was \$16,585,000, of which, \$1,854,000 is included in notes receivable current and \$14,731,000 is reflected as long term notes receivable in the government-wide statement of net assets as well as at the Proprietary Fund level.

<u>Component Units</u>	<u>Balance,</u> <u>October 1,</u> <u>2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance,</u> <u>September 30,</u> <u>2010</u>	<u>Current</u> <u>Portion</u>	<u>Long-Term</u> <u>Portion</u>
<b>Housing Authority of the Cherokee Nation ("HACN")</b>						
Note payable to Cherokee Nation in fixed monthly principal payments of \$155 with interest calculated on the outstanding balance each month. See (1) below.	\$ 19,291	\$ -	\$ (2,706)	\$ 16,585	\$ 1,854	\$ 14,731
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 (2) below.	127	-	(8)	119	8	111
Assumable Mortgage Program (*AMP*) - loans for use in the purchase of homes provided to program participants. Interest rates vary from 6.25% to 7% and are payable in monthly installments over thirty (30) years. See (3) below.	1,730	185	(73)	1,842	26	1,816
<b>Cherokee Nation Businesses ("CNB")</b>						
Effective April 4, 2002, CNB and a creditor restructured an existing trade payable initiated in fiscal year 2001 for inventory purchases totaling approximately \$8 to a long-term promissory note in 2005. The note is payable monthly with interest at 4% and is due in 2011.	195	-	(137)	58	58	-
CNB entered into a \$125,000 revolving syndicated credit agreement and a reducing term facility to fund expansions at CNE, diversification efforts at CNB, and operating and capital needs of other CNB subsidiaries. (See Note 11 Lines of Credit).	40,000	79,000	(101,000)	18,000	-	18,000
<b>Cherokee Nation Comprehensive Care Agency ("CNCCA")</b>						
Note payable to CNB to finance building 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.	1,370	-	(18)	1,352	19	1,333
Notes payable to finance vehicles secured by the vehicles at various principal and interest of \$1 due monthly from July 2008 and ending August 2014.	99	19	(24)	94	30	64
<b>Cherokee Nation Home Health Service ("CNHHS")</b>						
Bank note payable dated June 7, 2006 in the original amount of \$372 has monthly payments of \$3, including interest at 8% and matures June 7, 2012, secured by a building and land. See (4) below.	341	-	(11)	330	12	318
Bank note payable dated December 5, 2007 in the original amount of \$54 has monthly payments of \$1, including interest at 8% and matures November 8, 2012 secured by a building.	42	-	(7)	35	7	28
Bank note payable dated October 31, 2008, with a maximum amount of \$125 payable in four monthly payments of interest at 7% through February 28, 2009 followed by monthly payments of \$3, maturing February 28, 2013 secured by certain equipment.	101	8	(30)	79	32	47
Bank note payable dated April 30, 2010, with a maximum amount of \$125 payable in four monthly payments of interest at 7% through August 30, 2010 followed by monthly payments of \$3, maturing April 30, 2014 secured by certain equipment.	-	124	(2)	122	31	91
<b>Cherokee Nation Waste Management ("CNWM")</b>						
CNWM agreed to reimburse the Nation for payments under a capital lease on equipment used in the Cherokee Nation Sanitary Landfill operations. The transaction is being accounted for as if the lease had been assumed by CNWM.	24	-	(24)	-	-	-
<b>Total</b>	<u>\$ 63,320</u>	<u>\$ 79,336</u>	<u>\$ (104,040)</u>	<u>\$ 38,616</u>	<u>\$ 2,077</u>	<u>\$ 36,539</u>

(1) HACN, during fiscal year 2010, did not receive any loan advances for the Title VI program. This resulted in a cumulative amount of funds drawn on the available loan funds of \$33,231,000. The loan is divided into two separate "pools" which carry different interest rates over the life of the loan. Pool A, whose balance at September 30, 2010 was \$2,964,000 carries an interest rate of 6.7%. Pool B, whose balance at September 30, 2010

was \$13,621,000 carries a variable interest rate reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2010 was 0.96%. Pool A is repayable in monthly principal payments of \$54,358 through May 1, 2022, plus interest. Pool B principal payments of \$100,150 began March of 2005 and are scheduled through June 1, 2022, plus interest. During fiscal year 2010, HACN made total principal payments on Pool A of \$1,604,000 and on Pool B of \$1,102,000. As collateral for the loan, HACN has pledged all current and future grants, for which the borrower becomes eligible under NAHASDA, as well as income directly generated from the use of loan proceeds, program income derived from the sale or lease of real property acquired, rehabilitated or constructed with loan proceeds of the securities deposited to the pledge account.

- (2) During fiscal year 2006, HACN borrowed \$152,000 for its costs related to the Claremore QuadPlex project. The loan is repaid in monthly payments, beginning February 1, 2006, of \$1,341 including principal and interest. The loan carries an interest rate of 6.75%. The final payment will be made on February 1, 2021. At September 30, 2010 the loan balance was \$119,000.
- (3) During fiscal year 2007, HACN began its Assumable Mortgage Program. In fiscal year 2010, HACN has taken out 2 loans in the total amount of \$185,000 for use in the purchase of 25 total homes provided to program participants. Interest rates on the loans vary from 5.50% to 7.25% and are payable in monthly installments over thirty years. At September 30, 2010, the loan balance was \$1,842,000.
- (4) CNHHS renewed a promissory note and security agreement with a bank in June 2006 totaling \$371,261, which expires on June 7, 2009. Payments of \$2,901, including interest at 7.0% are due monthly with the remaining balance payable upon maturity. The purpose of the note was to finance the construction of a new office building, completed in March 2006. The note payable is collateralized by the property financed. Amount outstanding at September 30, 2010 was \$330,000.

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:			
2011	4,237	1,700	5,937
2012	4,202	1,585	5,787
2013	3,943	1,430	5,373
2014	3,475	1,295	4,770
2015	3,555	1,160	4,715
2016 through 2020	19,130	4,207	23,337
2021 through 2025	9,563	843	10,406
Total	<u>\$ 48,105</u>	<u>\$ 12,220</u>	<u>\$ 60,325</u>
Business-type Activities:			
2011	1,992	882	2,874
2012	1,989	788	2,777
2013	1,915	690	2,605
2014	1,915	591	2,506
2015	1,619	495	2,114
2016 through 2020	6,328	1,499	7,827
2021 through 2025	1,938	128	2,066
2026 through 2030	348	12	360
2031 through 2035	125	3	128
Total	<u>\$ 18,169</u>	<u>\$ 5,088</u>	<u>\$ 23,257</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:

<u>Pay Count</u>	<u>Annual Leave Earned</u>	
	<u>Regular Full-Time</u>	<u>Regular Part-Time</u>
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):

<u>Fiscal Year</u>	<u>Balance at Beginning of Year</u>	<u>Leave Earned</u>	<u>Leave Used</u>	<u>Balance at End of Year</u>
2008	\$4,149	\$6,566	(\$6,042)	\$4,673
2009	\$4,673	\$8,347	(\$7,324)	\$5,696
2010	\$5,696	\$8,879	(\$8,337)	\$6,238

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

#### **10. INTEREST RATE SWAP AGREEMENT**

In connection with the issuance of a \$24,000,000 note payable (see footnote 2 on page 66 – 67), the Nation also entered into an interest rate swap agreement with BOK. 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 \$23,733,333 at September 30, 2010. 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, 2010, the agreement had a fair value of \$833,660 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 other liabilities in the Nation's government-wide statement of net assets. As the swap is an effective hedging instrument, the offsetting balance is reflected as a deferred outflow on the Nation's government-wide statement of net assets. The fair value of the swap of \$833,660 is shown as a deferred outflow on the statement of net assets.

**Credit Risk** - The swap's fair value represented the Nation's credit exposure to the counterparty as of September 30, 2010. 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, 2010, 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 A2 by Moody's Investors Service as of September 30, 2010. 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, 2010 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.

	Variable-Rate Note		Interest Rate	Total
	Principal	Interest		
			Swap, Net	
2011	\$1,599,996	\$267,060	\$469,829	\$2,336,889
2012	1,599,996	249,169	438,354	2,287,522
2013	1,599,996	229,903	404,461	2,234,364
2014	1,599,996	211,325	371,777	2,183,102
2015	1,599,996	192,747	339,093	2,131,840
2016 – 2025	<u>15,733,333</u>	<u>906,634</u>	<u>1,595,009</u>	<u>18,234,976</u>
	<u>\$23,733,333</u>	<u>\$2,056,838</u>	<u>\$3,618,523</u>	<u>\$29,408,693</u>

## 11. LINES OF CREDIT

Pursuant to LA 28-04 which amended LA 05-02, The Fiscal Policy and Responsibility Act, authorized a 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. To date, the line of credit has not been utilized.

On May 9, 2008, CNB entered into a \$125 million revolving syndicated credit agreement (“Facility A”) and a reducing term facility (“Facility B”) (collectively, “the Facility”). The proceeds from the Facility are to be used primarily to fund expansions at CNE, fund diversification efforts at CNB and fund the operating and capital needs of other CNB subsidiaries. CNE guarantees the Facility. In addition, the Facility is collateralized by CNE cash flows and substantially all of CNE’s assets.

The following is a description of each facility:

Facility A – Facility A is a syndicated revolving facility totaling \$125 million. The facility bears interest at a base rate (the higher of the fed funds rate plus 50 basis points or the administrative agent’s prime rate) or the LIBOR plus 1.25% or 1.50%, depending on CNE’s leverage ratio. Facility A has quarterly unused commitment fees, ranging from 0.25% to 0.50%, depending on the level of utilization of the facility. The facility reduces \$3,125,000 a quarter, beginning with the quarter ending June 30, 2010. Facility A matures on June 30, 2013. At September 30, 2010, CNB had borrowings outstanding under Facility A of \$18,000,000. In addition, CNB had letters of credit outstanding totaling \$3,993,000 at September 30, 2010. CNB’s availability under Facility A was approximately \$96,757,000 at September 30, 2010.

Facility B – Facility B had an original principal amount of \$49,135,000, the balance of CNE’s investment in the Columbia Strategic Cash Portfolio (the “Portfolio”) as of the closing date of the Facility. Facility B matured in December 2009 upon final distribution of CNE’s investment in the Portfolio.

Both CNB and CNE, as borrower and guarantor, respectively, are subject to various reporting and financial covenants, including a requirement to provide separate stand-alone audited financial

statements for both entities. Both CNE and CNB were in compliance with all financial covenants at September 30, 2010. All interest and fees incurred by CNB under the Facility are allocated to the respective subsidiaries of CNB based on actual borrowings and/or prospective cash needs.

## **12. TRUST LIABILITY**

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

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

The HACN Trust Liabilities reflected in the accompanying financial statements primarily includes a liability for funds that have been received from the tenants or homebuyers in the various lease-to-own programs. 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 \$7,000,000 as of September 30, 2010. This along with other credits to these tenant/homebuyers totaled \$7,894,000 at September 30, 2010. 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, 2010, other amounts included in this category include escrow deposits held by the HACN associated with the Title VI program mortgages totaling \$71,000, and low income housing tenant's security deposits of \$70,000.

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

At September 30, 2010, the Nation had a total General Fund fund balance of \$61,609,000. This balance includes \$46,973,000 that has been reserved by Legislative Act or restricted by external sources and an unreserved fund balance of \$14,636,000. A brief description of the reserved elements of the Nation's General Fund fund balance follows:

**Motor Fuel Tax** — The Nation began receiving Motor Fuel Tax dollars in 1997 and based on existing agreements with the State of Oklahoma, will continue receiving such funds until 2016. These funds are subject to general restriction under the agreement with the State of Oklahoma.

Cherokee Nation Legislative Act 10-97 further restricted the use of these funds to those matters specifically appropriated by Act 10-97 and future legislative acts. A summary of activity in this reserved fund balance during the year ended September 30, 2010 follows (dollars in thousands):

Balance at beginning of year	\$ 30,914
FY 2010 Motor Fuel Tax revenues	7,256
Interest earnings on unexpended funds	465
Actual expenditures	<u>(6,317)</u>
Balance at end of year	<u><u>\$ 32,318</u></u>

**Motor Vehicle Tax** — In 2002, the Nation negotiated with the State of Oklahoma a licensing compact in which the Nation could license motor vehicles and other vehicles owned by the Nation’s enrolled citizens living within the jurisdictional area of the Cherokee Nation. The Cherokee Nation Motor Vehicle Code provides for annual payments by the Nation of 38% of such of revenues to Oklahoma public schools, Sequoyah High School, and Cherokee Nation Head Start Centers, an amount equal to 20% of such revenues for counties, municipalities, and federally- and/or state-funded highway construction or maintenance projects located within the jurisdictional area, and up to 20% of the remaining revenues net of costs incurred in administering the tag office for funding local law enforcement within the jurisdictional area. The term of the compact shall remain for a period of ten years. Amounts restricted for schools, highways, and law enforcement at September 30, 2010 totaled approximately \$6,703,000. A summary of activity in this reserved fund balance during the year ended September 30, 2010 follows (dollars in thousands):

Balance at beginning of year	\$ 6,208
FY 2010 Motor Vehicle Tax revenues	7,770
Interest earnings on unexpended funds	21
Actual expenditures	<u>(7,296)</u>
Balance at end of year	<u><u>\$ 6,703</u></u>

**Cash Reserve** — In 2002, Legislative Act 5-02, authorized the establishment of a permanent Cash Reserve Fund. The total of this reserve at September 30, 2010 was \$1,256,000.

**Arkansas River Drybed Lands Settlement** — In FY 2004, Legislative Act 5-04 established the policies and procedures for governing the use and expenditure of trust funds awarded to the Cherokee Nation under the Cherokee, Choctaw, and Chickasaw Nations Claims Settlement Act (“Settlement Act”). The Settlement Act specifically set aside trust funds to be appropriated by Congress for Trust Land Acquisitions. The settlement proceeds, after payment of legal fees are reserved for the purchase of land in designated areas. The reserved fund balance and interest accumulated on the Arkansas River Drybed Lands Settlement at September 30, 2010 follows (dollars in thousands):

Balance at beginning of year	\$ 7,291
Actual expenditures	<u>(1,374)</u>
Balance at end of year	<u><u>\$ 5,917</u></u>

**TERO Job Training Programs** – Legislative Act 38-05 reserved revenues collected by the TERO program to fund job training activities. This reserved fund balance on the TERO Job Training Programs at September 30, 2010 follows (dollars in thousands):

Balance at beginning of year	\$ 998
FY 2010 TERO revenues	335
Actual expenditures	<u>(554)</u>
Balance at end of year	<u><u>\$ 779</u></u>

**Unreserved General Fund** — A summary of activity in the unreserved General fund balance for the year ended September 30, 2010 follows (dollars in thousands):

Unreserved fund balance at beginning of year	\$ 21,674
FY 2010 General Fund revenues and other financing sources	60,476
Less:	
Actual expenditures and other financing uses	(67,436)
Increase in restricted funds in 2010	<u>(78)</u>
Unreserved fund balance at end of year	<u><u>\$ 14,636</u></u>

During fiscal year 2010, the Nation’s unreserved fund balance decreased by \$7,038,000. The decrease in fund balance was primarily the result of the use of carryover to fund project type activities. The decrease in unreserved fund balance was anticipated by the Nation in the annual comprehensive budget. At the end of fiscal year 2010, the unreserved fund balance is approximately 25% of fiscal year 2010 revenues.

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

**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” (“GASB Statement No. 18”), in the Landfill Closure 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 \$2,450,000 reported as Landfill Closure and Postclosure Care Liability at September 30, 2010 (included in “Other Noncurrent Liabilities”), represents the cumulative costs recognized to date based on the existing use of 36% of the total estimated

capacity of the landfill. Landfill Closure will recognize the remaining estimated cost of closure and postclosure care of approximately \$4,312,000 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 2010. Actual costs may be higher due to inflation, changes in technology, or changes in regulations. The Nation expects the landfill to have a remaining life of approximately 9.1 million cubic yards. Actual remaining years of operation is dependent upon several factors including the volume of waste accepted on an annual basis.

CNWM currently operates the landfill and is required to make an annual payment to the Nation in an amount sufficient to cover the change in the annually calculated closure/post closure liability associated with the landfill operation. The actual closure/post closure liability relating to the landfill operation will be retained by the Nation, together with the cash and investment balances maintained in the Cherokee Nation's Closure/Postclosure restricted cash and investment funds. Total payments from CNWM for fiscal year 2010 were approximately \$175,000.

The Nation makes annual contributions to a restricted bank account to finance closure and postclosure care. At September 30, 2010, restricted cash, cash equivalents and investments of approximately \$2,348,000 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.

## **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 \$150,000 per year per employee. Amounts over \$150,000 are subject to reimbursement by the insurance company.

The Nation is self-insured against employee health and short-term disability claims incurred under its employee group health disability plan. The maximum liability risk to the Nation is \$150,000 per employee per year 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, 2010. 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 \$2,324,000 at September 30, 2010, has been recorded in accordance with GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

The claims liability has been estimated based upon historical claims experience. The Nation believes that this method of estimating the liability is sufficient to determine the amount of open claims and to provide for claims that have been incurred but not reported ("IBNR"). Changes in the reported liability follow (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>
2008	\$1,595	\$13,449	(\$13,183)	\$1,861
2009	\$1,861	\$17,435	(\$16,696)	\$2,600
2010	\$2,600	\$18,491	(\$18,767)	\$2,324

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

Workers' Compensation benefits are provided within the All Lines Aggregate program described below. There is \$100,000 retention with a maximum benefit of \$5,000,000 for each occurrence. Employers Liability has a \$1,000,000 per person/claim limit, and Crime coverage has a \$1,000,000 each loss limit with a Retroactive date of October 1, 2003. Excess Crime coverage is in place with a lower deductible of \$25,000.

The first \$100,000 of risk is retained with the All Lines Aggregate program responding to losses occurring between \$100,001 - \$10,000,000. A stop loss equivalent to 1.8% of payroll is in place to limit the Nation's exposure. Program design includes Clash Coverage which further limits the Nation's exposure by applying only one \$100,000 retention per insured incident regardless of the number of coverage lines that may apply arising out of a single Event. Coverage provided by the All Lines Aggregate program includes the following liability coverage on a \$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, Medical Malpractice including Hospital/Clinic Malpractice, Host and/or Liquor Liability, Innkeepers Liability, Automobile Liability including Non-Owned Automobile Liability, Auto Medical Payments, Uninsured and Underinsured Motorists. The following coverage lines have a limit of \$10,000,000 each occurrence and in the Aggregate: Police or Law Enforcement Officials Liability, Tribal Officials Liability, Errors and Omissions Liability, Employee Benefit Liability, and Employment Practices Liability. Retroactive coverage is provided for all coverage lines within this class with an October 1, 2003 Retroactive Date.

CNB and its blended component units provide employee health coverage under self-insured group health plans. The maximum liability amount for CNB and these component units range from \$75,000 to \$150,000 per employee per year. Any claims in excess of these limits are covered by insurance. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible the estimates will change by a material amount in the near term.

Information concerning the changes in the CNB self-insurance medical liability 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>
2008	\$1,980	\$15,472	(\$15,632)	\$1,820
2009	\$1,820	\$19,899	(\$18,859)	\$2,860
2010	\$2,860	\$23,675	(\$23,563)	\$2,972

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

The Nation's primary government's total gross payroll for fiscal year 2010 was approximately \$125,454,000, which included approximately \$123,294,000 for employees covered by the plan. Contributions to the 401(k) plan for 2010 were approximately \$9,423,000. Contributions expressed in dollars and percent of covered payroll were: Nation \$4,007,000, 4.3% and participants \$5,416,000, 5.7%.

The Nation's required contribution and percentage of contribution for fiscal year 2010 and the two preceding years follows:

**(dollars in thousands)**

<u>Fiscal Year</u>	<u>Required Contribution</u>	<u>Percentage Contribution</u>
2008	\$3,018	100%
2009	\$3,627	100%
2010	\$4,007	100%

In 2004 the Nation sponsored a deferred compensation 457(B) plan, which utilizes Nationwide Trust Company, FSB as trustee. A deferred compensation plan provides retirement benefits and provides an individual account for each participant, and specifies how contributions to the individual's account are to be determined. Under a deferred compensation plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of those contributions. The 457(b) plan mirrors the 401(k) eligibility requirements and also allows participation of elected officials. The plan year is January 1 through December 31. Participants become fully vested after four years of participation in the plan. Employees may contribute up to 100% of their gross salary, and after 6 months of service the

Nation will match 100% for the first 5% and 50% of the next 4%, not to exceed a total combined match of 7% in all retirement plans. The plan is administered by the Group Leader of Human Resources, with input from the Nation's Pension Committee. The Pension Committee consists of the plan administrator and employees of the Nation. The plan administrator is responsible for amending the plans' provisions, including contribution requirements. Contributions to the 457(b) plan for 2010 were \$280,000 of which \$70,000 was required and made by the Nation and \$210,000 was made by participants.

CNB, CNE and CSG provide a defined contribution retirement plan, the Cherokee Nation Entertainment, LLC 401(k) Retirement Savings Plan ("the Plan"). Full-time employees of CNB and these component units who have six months of service and who are at least 21 years old are eligible to participate in the Plan. Under the provisions of the Plan, participants must elect to contribute from 1% to 25% of their eligible compensation of which CNB and these component units will match 100% of the first 6%. During 2010, participating employees contributed \$5,479,000 with employer matching contributions of \$4,347,000 to the Plan.

CNB's component unit, CNE, has deferred compensation and long-term incentive compensation arrangements and a supplemental retirement benefit plan for executive management. At September 30, 2010, liabilities under these deferred compensation and long-term incentive compensation arrangements totaled approximately \$627,000.

CNI has a 401(k) savings plan covering substantially all full-time employees except employees subject to medical leasing contracts with the U.S. government employed by CMS. CNI's discretionary contributions to the plan are made based on the participants' compensation. CNI's contributions to the plan were approximately \$275,000 for 2010.

CMS, a component unit of CNI, has a 401(k) plan covering substantially all full-time employees of CMS. CMS does not make contributions to this plan.

CSG provided employees hired from Information Technology Experts, Inc ("ITX") a separate 401(k) plan. On January 1, 2010, employees began contributing to the CNE Plan and all plan assets were moved from the CSG Plan to the CNE Plan in February 2010 when the CSG Plan was terminated.

## **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 (30% as of September 30, 2010). Dividend payments to the Nation by component units totaled \$26,429,000 (which includes an accrual of \$2,303,000) during 2010.

Cherokee Nation Businesses, LLC ("CNB") —The Nation levies certain taxes and fees which apply to some of the Nation's component units. During 2010, the Nation collected a tribal tax on food and beverage, tobacco, merchandise and other retail sales from CNE totaling \$2,425,000. The Nation's Gaming Commission, which has regulatory oversight responsibility for gaming, collected fees of \$3,036,000 from CNE. The Nation also provides certain security services to CNE through the Nation's Marshal Service. In 2010, the Nation collected \$588,000 from CNE for services provided by the Marshals.

CNE 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 Cherokee Nation's history and making contributions to communities within the Cherokee Nation.

During 2010, CNE incurred \$3,053,000 in operating and employee costs in addition to a \$733,000 capital grant awarded to the Nation for cultural development activities.

Housing Authority of the Cherokee Nation (“HACN”) — February 14, 2008, the Nation and HACN entered into a Memorandum of Agreement (“MOA”) for the purpose of designating the Nation as the entity to administer housing programs on behalf of the HACN effective May 1, 2008. This MOA applies to all activities and expenditures of the Nation that are made on behalf of the HACN and encompasses all funding sources of the HACN including but not limited to NAHASDA, Program Income, Non-Program Income, MEPA, Proceeds of Sale, and Operating Reserves. HACN will retain operations related to land title and oversight of the low income tax credit partnership projects. The MOA shall remain in effect until terminated. The HACN has a Board of Commissioners that continues to provide oversight and direction to the remaining activities of HACN. Proceeds of sale funds totaling \$1,425,000 were provided to the Nation during fiscal year 2010 to assist with the cost of administering the housing programs.

Cherokee National Historical Society, Inc (“CNHS”) — In November 2005, the Nation, CNE, and the CNHS entered into a Memorandum of Agreement to further the parties shared mission to preserve the culture and history of the Cherokees by assigning duties to the party that can best perform those duties. CNHS remained responsible for all charitable fundraising, maintaining memberships, operating the museum and teach the Cherokee Humanities Course. In 2010, CNE provided marketing services, including group sales, and operation of the museum store at a net cost to CNE of \$314,000. The Nation performed all remaining operational and educational functions such as accounting, purchasing, contracts, human resources, information technology, and facilities maintenance. The Memorandum of Agreement is renewable annually upon agreement of the entities involved. For fiscal year 2010, the Nation’s general fund included operational expenses of \$1,174,000 for the Cherokee Nation Historical Society.

## **18. COMMITMENTS AND CONTINGENCIES**

Citizenship Litigation — The Nation held a special election on March 3, 2007 regarding criteria for citizenship in the Cherokee Nation. The results of that election were that citizenship is now limited to those individuals who had an Indian ancestor on the Dawes Rolls. There were two cases pending on this issue in the District Court for the District of Columbia and Cherokee Nation District Court. Those persons excluded by the special election have alleged that they cannot be disenrolled as citizens under the Nation’s 1866 Treaty with the United States, along with various federal laws. On January 14<sup>th</sup>, 2011, the Cherokee Nation District Court ruled in favor of those persons and directed the Cherokee Nation Registrar to process citizenship applications previously held in abeyance. The Nation has appealed the CN District Court decision and requested a stay in the processing of applications pending the Cherokee Nation Supreme Court decision on the appeal. The CN District Court issued an order on February 18, 2011 continuing the stay pending the Cherokee Nation Supreme Court decision on the appeal. The net impact of this case is not certain but is not expected to have a material adverse economic impact on the Nation.

Federal Grants — In the normal course of operations, the Nation and 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 audit by agents of the granting authority, the purpose of which is to insure compliance with conditions precedent with the granting of funds. Management does not believe any liability for reimbursement which may arise as the result of these audits will be material.

United Keetoowah Band/Arkansas River Drybed Settlement Claim — The United Keetoowah Band of Cherokee Indians of Oklahoma filed a claim in the United States Court of Claims, alleging that it was entitled to a portion of the funds from the Arkansas Riverbed Settlement Act passed by Congress. 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.

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

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

CNB Matters — CNE is licensed to conduct Class II gaming operations as well as an expanded variety of gaming as allowed under the Compact. 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. 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 is party to a volume software license agreement with a vendor requiring annual payments of approximately \$610,000. The agreement expires in 2013.

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 a motor fuel marketing agreement with a vendor to purchase motor fuel products for sale at the Roland Travel Plaza in Roland, Oklahoma, which opened in May 2007. The agreement is effective the first day of the month following completion and continues for a period of 10 years. Total purchases under this agreement were \$6,340,000 in 2010.

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

license payments based on a percentage of Catoosa property revenues, as defined in the agreement, with a minimum annual payment of \$5,000,000 for each of the first three years. 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. During 2010, CNE paid approximately \$5,000,000 in license fees, of which \$1,815,000 was recognized as license fee expense and is included in operating expense in the statement of revenues, expenses and changes in net assets. The remaining balance of \$3,185,000 was recorded as an intangible asset. Amortization of the intangible asset for the year ended September 30, 2010, of \$703,000 is included in depreciation and amortization in the statement of revenues, expenses and changes in net assets. The amortized balance of the intangible asset was approximately \$2,886,000 at September 30, 2010. In addition to paying a license fee under the Hard Rock license agreement, CNE is also required to meet certain operational and capital standards. As of September 30, 2010, CNE believes it is in compliance with the agreement.

Loan Guarantees – On July 21<sup>st</sup>, 2008, the Nation approved a loan guarantee for Chilocco Benefit Association, Inc, an unrelated nonprofit organization, up to \$300,000. To date, no loan has been obtained by the organization and no guarantee has been executed.

The Nation approved a loan guarantee for Cherokee Nation Home Health Services, Inc., a component unit, up to \$786,000. This loan guarantee replaced a previous guarantee of \$915,000. To date, no loan has been obtained and no guarantee has been executed related to this guarantee.

## **19. SUBSEQUENT EVENTS**

Subsequent to September 30, 2010, CNB and certain of its blended component units completed additional business combinations as follows:

On November 1, 2010, CNB completed the acquisition of 100% of the common stock of Mobility Plus, LLC, an Oklahoma limited liability corporation. Mobility Plus sells and leases durable medical equipment. The total purchase price was \$3,000,000 including cash paid at closing of \$2,065,046, holdbacks totaling \$920,027 and the assumption of certain liabilities totaling \$14,927. The purchase agreement also calls for future payments to the sellers contingent upon the future financial performance of the company.

On February 1, 2011, CNB completed the purchase of the assets of ETI Professionals, Inc. (“ETI”) through its component units Cherokee Nation Government Solutions, LLC (“CNGS”) and CNTS. CNGS was formed for the purpose of completing the acquisition. ETI provides professional staffing services primarily to government agencies. The purchased assets consist primarily of customer contracts. The total purchase price paid at closing was \$5,200,000. In addition, \$1,000,000 was placed in escrow to be released to the sellers contingent upon the successful transition of customer contracts. The purchase agreements also calls for future payments to the sellers based on the future financial performance of CNGS and CNTS.

CNB funded the acquisitions with existing cash reserves and incremental borrowings under its line of credit.

On February 1, 2011, the roof on a section of CNE’s Catoosa gaming facility collapsed as a result of a weather-related incident. That section of the gaming facility will likely require demolition and reconstruction which could take up to a year to complete. The damaged area housed approximately 500 of the 2,400 electronic gaming machines at the Catoosa gaming facility as well

as numerous card tables, two restaurant facilities and a bar area. CNE maintains both property damage and business interruption insurance that is expected to cover the cost to reconstruct the facility and other losses from this incident subject to minimal deductibles. In addition, management is taking steps to reconfigure the Catoosa gaming facility's operations to minimize the impact on its customers and losses associated with the event.



## OTHER SUPPLEMENTARY INFORMATION

GWX9 D3F  
**CHEROKEE NATION**<sup>®</sup>  
Comprehensive Annual Financial Report



# NONMAJOR GOVERNMENTAL FUNDS

GWX9 D3F

CHEROKEE NATION®

Comprehensive Annual Financial Report

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

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

- **Self Governance DOI - Other** – Established to account for funds received under the Nation's self governance compact with the United States Government. These funds are used to administer a number of programs under the Department of Interior relating to education, health and welfare, and tribal government within the Nation's geographic boundaries.
- **Sequoyah Education** – Established to account for grant funds received from the Department of the Interior to help fund the education programs of Sequoyah High School.
- **Talking Leaves Job Corps** – Established to account for funds received from the Department of Labor for counseling, training and job placement of disadvantaged youth.
- **Diabetes** – Established to account for Department of Health and Human Services Diabetes Grant funds used to purchase diabetic medicines and supplies, promote awareness and provide assistance to diabetic patients.
- **Food Distribution** – Established to account for Department of Agriculture food products provided to the Nation and grant funds used to pay administrative and program costs of a program which provides food to eligible Indian families.
- **Women, Infants and Children** – Established to account for grant funds received from the Department of Agriculture to supply supplemental food and nutrition education to women and children at nutritional risk.
- **Head Start** – Established to account for grant funds from the Department of Health and Human Services to provide comprehensive health, educational, nutritional, social, and other services primarily to economically disadvantaged preschool Indian children.
- **PL102-477** – Established to account for funds received through the Department of the Interior from the Department of Labor for counseling, training and job placement of disadvantaged youth, as well as from the Department of Health and Human Services to provide child care services for low-income families with a parent that is working or attending a training or educational program.
- **Other Grants** – Established to account for various sources of grant funds used to fund specific program activities.
- **Tribal Judgment Funds** – Established to account for monies received by the Nation from the settlement of disputes with the United States Government. The judgment monies are expended in accordance with plans for use and distribution adopted by the Nation and approved as applicable, by the Secretary of the Interior. The judgment fund is controlled and administered by the Bureau of Indian Affairs.
- **Tribal Trusts** – Established to account for income received from external users of tribal lands, such as oil and gas royalties. The Bureau of Indian Affairs administers these funds which may be expended upon request and approval by the Secretary.

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

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

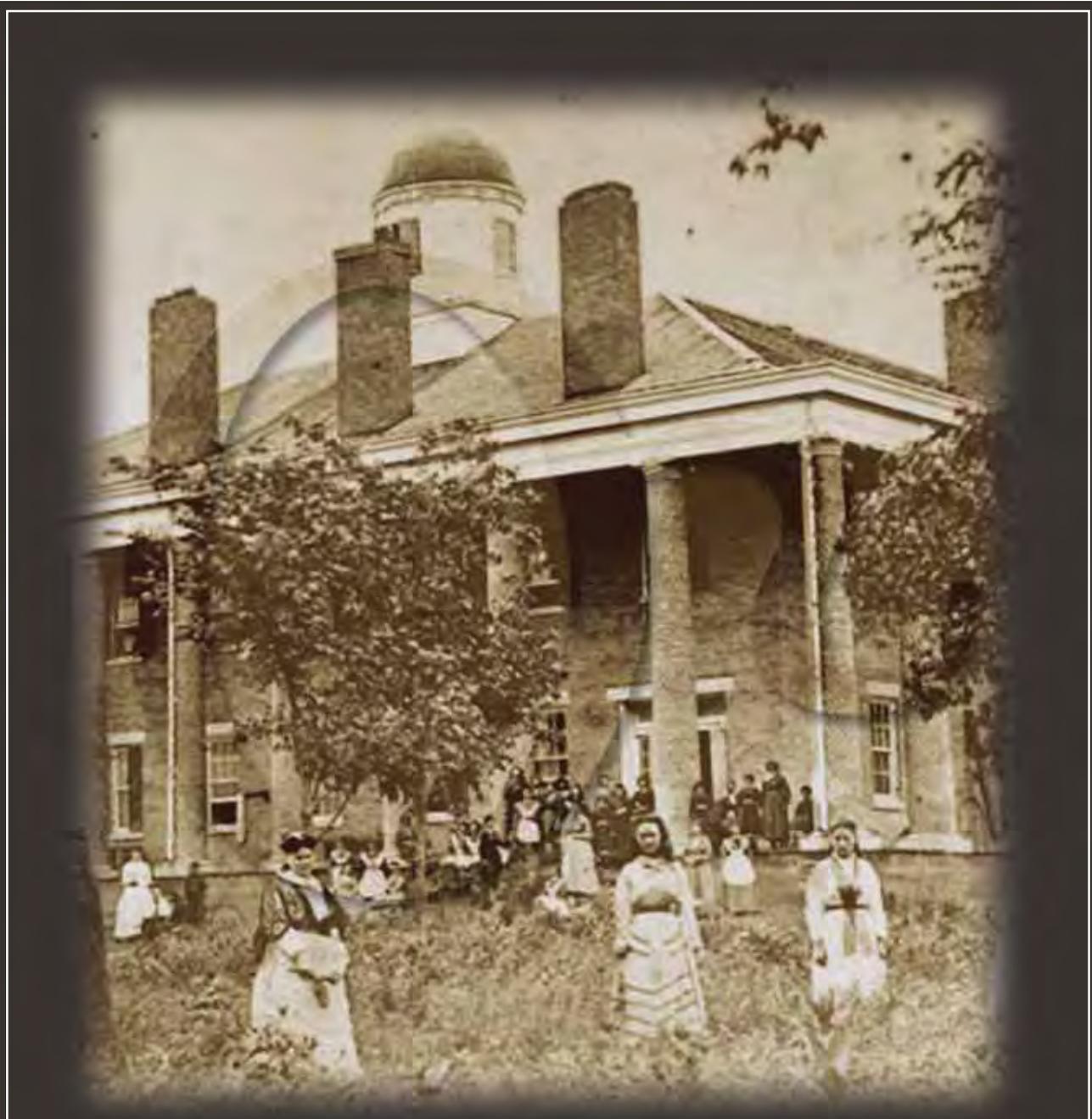
- **Sequoyah Endowment** – Established to account for funds endowed from the Louise K. Green-Matthews Grant in Environmental Science. The income from the grant is to be used to encourage Cherokee students of at least one-quarter blood quantum to engage in furthering their education in the Environmental Science field.
- **Gammon Education Trust** – Established to account for funds endowed by Glenn L. and Faye V. Gammon Trust. The income from this education trust may be used to provide tuition and related educational assistance while they attend any accredited college or university located in the continental United States. The Cherokee students must be at least one-quarter blood quantum.

CHEROKEE NATION  
 COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS  
 SEPTEMBER 30, 2010  
 (Dollars in Thousands)

	Special Revenue Funds										Debt Service			Permanent Funds			Total Nonmajor Governmental Funds
	Self Governance DOI-Other	Sequoyah Education	Talking Leaves Job Corps	Diabetes	Food Distribution	Women, Infants, & Children Head Start	PL 102-477	Other Grants	Tribal Judgment Funds	Tribal Trusts	Total	Debt Service Fund	Sequoyah Endowment	Gammon Education Trust	Total		
<b>ASSETS</b>																	
Cash and cash equivalents	\$ 3,349	\$11,108	\$ 25	\$ 3,528	\$ -	\$ -	\$10,021	\$ 1,044	\$ 1,296	\$1,424	\$31,795	\$ -	\$ -	\$ -	\$ -	\$ 31,795	
Investments	-	-	-	-	-	-	-	295	6,948	695	7,938	-	-	-	-	7,938	
Receivables, net	-	-	1,472	-	152	210	1,604	2,593	38	2	6,962	-	-	-	-	6,962	
Inventories	-	-	-	-	919	-	-	-	-	-	919	-	-	-	-	919	
Notes receivable	-	-	-	-	-	-	-	84	-	-	84	-	-	-	-	84	
Other current assets	-	-	-	-	-	199	-	-	-	-	199	-	-	-	-	199	
Restricted cash, cash equivalents and investments	-	-	-	-	-	-	-	-	2,271	-	2,271	1,709	292	501	4,481		
Total assets	<b>\$ 3,349</b>	<b>\$11,108</b>	<b>\$1,497</b>	<b>\$ 3,528</b>	<b>\$1,071</b>	<b>\$ 409</b>	<b>\$11,625</b>	<b>\$ 4,016</b>	<b>\$10,553</b>	<b>\$2,121</b>	<b>\$50,168</b>	<b>\$ 1,709</b>	<b>\$ 292</b>	<b>\$501</b>	<b>\$ 52,378</b>		
<b>LIABILITIES AND FUND BALANCE</b>																	
Liabilities:																	
Accounts payable and accrued liabilities	\$ -	\$ -	\$ -	\$ 8	\$ 1	\$ 10	\$ -	\$ 1	\$ -	\$ -	\$ 23	\$ -	\$ -	\$ -	\$ -	\$ 23	
Due to other funds	402	473	1,496	183	152	183	1,827	87	1,740	64	7,495	42	-	-	7,537		
Other liabilities	-	-	-	-	-	214	-	-	-	-	214	-	-	-	214		
Deferred grant revenue	2,917	8,926	1	3,337	-	2	8,324	660	-	-	24,187	-	-	-	24,187		
Unearned revenue	30	-	-	-	918	-	-	-	-	-	948	-	-	-	948		
Total liabilities	3,349	9,399	1,497	3,528	1,071	409	10,151	768	1,740	64	32,867	42	-	-	32,909		
Fund balance, reserved	-	1,709	-	-	-	-	1,474	3,248	8,813	2,057	17,301	1,667	292	501	19,469		
Total fund balances	-	1,709	-	-	-	-	1,474	3,248	8,813	2,057	17,301	1,667	292	501	19,469		
Total liabilities and fund balance	<b>\$ 3,349</b>	<b>\$11,108</b>	<b>\$1,497</b>	<b>\$ 3,528</b>	<b>\$1,071</b>	<b>\$ 409</b>	<b>\$11,625</b>	<b>\$ 4,016</b>	<b>\$10,553</b>	<b>\$2,121</b>	<b>\$50,168</b>	<b>\$ 1,709</b>	<b>\$ 292</b>	<b>\$501</b>	<b>\$ 52,378</b>		

CHEROKEE NATION  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS  
 FOR THE YEAR ENDED, SEPTEMBER 30, 2010  
 (Dollars in Thousands)

	Special Revenue Funds											Debt Service			Permanent Funds			Total Nonmajor Governmental Funds
	Self Governance DOI/Other	Sequoyah Education	Talking Leaves Job Corps	Diabetes	Food Distribution	Women, Infants, & Children	Head Start	PL 102-477	Other Grants	Tribal Judgment Funds	Tribal Trusts	Total	Debt Service Fund	Sequoyah Endowment	Gammom Education Trust	Total		
Revenues:																		
Intergovernmental	\$ 11,103	\$ 8,586	\$ 7,168	\$ 6,813	\$ 8,773	\$ 6,245	\$ 8,343	\$ 15,111	\$ 27,116	\$ -	\$ -	\$ 99,258	\$ -	\$ -	\$ -	\$ -	\$ 99,258	
Interest	34	77	-	20	-	-	1	82	7	317	32	570	1	1	2	3	574	
Other	438	5	-	-	78	-	2,716	717	1,978	107	107	6,039	-	-	-	-	6,039	
Health third party	-	-	-	-	-	-	-	-	739	-	-	739	-	-	-	-	739	
Total revenues	11,575	8,668	7,168	6,833	8,851	6,245	11,060	15,910	29,840	317	139	106,606	1	1	2	3	106,610	
Expenditures:																		
Current operating:																		
Tribal government	3,689	-	-	-	-	-	-	-	227	(19)	9	3,906	8	-	-	-	3,914	
Health services	3,749	-	6,941	6,833	-	6,234	-	13,450	-	-	-	26,517	-	-	-	-	26,517	
Education services	2,680	9,308	-	-	-	-	11,037	3,024	3,029	-	-	37,088	-	73	73	73	37,161	
Human services	790	-	-	-	9,073	-	-	12,821	9,147	-	-	33,721	-	-	-	-	33,721	
Community services	-	-	-	-	-	-	-	-	3,277	-	-	4,067	-	-	-	-	4,067	
Debt services:																		
Principal	-	-	-	-	-	-	-	-	-	-	-	-	1,595	-	-	-	1,595	
Interest	-	-	-	-	-	-	-	-	-	-	-	-	1,007	-	-	-	1,007	
Capital outlay	33	390	227	-	499	11	23	-	316	-	-	1,499	-	-	-	-	1,499	
Total expenditures	10,941	9,698	7,168	6,833	9,572	6,245	11,060	15,845	29,446	(19)	9	106,798	2,610	-	73	73	109,481	
Excess (deficiency) of revenues over expenditures	634	(1,030)	-	-	(721)	-	-	65	394	336	130	(192)	(2,609)	1	(71)	(70)	(2,871)	
Other financing sources (uses):																		
Insurance recoveries	-	80	-	-	-	-	-	15	-	-	-	15	-	-	-	-	15	
Transfers in	(714)	680	-	-	721	-	-	-	593	-	-	2,074	2,621	-	-	-	4,695	
Transfers out	-	-	-	-	-	-	-	-	(397)	-	-	(1,111)	-	-	-	-	(1,111)	
Total other financing sources (uses)	(634)	680	-	-	721	-	-	15	196	-	-	978	2,621	-	-	-	3,599	
Net change in fund balances	-	(350)	-	-	-	-	-	80	590	336	130	786	12	1	(71)	(70)	728	
Fund balance, October 1, 2009	-	2,059	-	-	-	-	-	1,394	2,658	8,477	1,927	16,515	1,655	208	363	571	18,741	
Fund balance, September 30, 2010	\$ -	\$ 1,709	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,474	\$ 3,248	\$ 8,813	\$ 2,057	\$ 17,301	\$ 1,667	\$ 209	\$ 292	\$ 501	\$ 19,469	



## NONMAJOR ENTERPRISE FUNDS

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CHEROKEE NATION®

Comprehensive Annual Financial Report

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

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

# CHEROKEE NATION

## COMBINING STATEMENT OF NET ASSETS - NONMAJOR ENTERPRISE FUNDS

SEPTEMBER 30, 2010

(Dollars in Thousands)

	<u>Tsa-La-Gi Apartments</u>	<u>Landfill Closure</u>	<u>EDTA</u>	<u>Total</u>
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 100	\$ -	\$ 804	\$ 904
Accounts receivable, net	-	1	-	1
Due from other funds	-	-	80	80
Due from component units	-	121	-	121
Notes receivable, current	-	-	664	664
Other current assets	2	-	7	9
Total current assets	<u>102</u>	<u>122</u>	<u>1,555</u>	<u>1,779</u>
Noncurrent assets:				
Restricted cash, cash equivalents and investments	345	2,348	-	2,693
Long-term notes receivable	-	-	2,957	2,957
Capital assets, net	645	-	-	645
Total noncurrent assets	<u>990</u>	<u>2,348</u>	<u>2,957</u>	<u>6,295</u>
Total assets	<u>1,092</u>	<u>2,470</u>	<u>4,512</u>	<u>8,074</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	37	-	-	37
Current portion of long-term debt	114	-	24	138
Due to other funds	11	4	-	15
Other current liabilities	17	-	-	17
Total current liabilities	<u>179</u>	<u>4</u>	<u>24</u>	<u>207</u>
Noncurrent liabilities:				
Long-term debt	74	-	1,372	1,446
Other liabilities	-	2,450	-	2,450
Total noncurrent liabilities	<u>74</u>	<u>2,450</u>	<u>1,372</u>	<u>3,896</u>
Total liabilities	<u>253</u>	<u>2,454</u>	<u>1,396</u>	<u>4,103</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	457	-	-	457
Restricted for capital replacements	324	-	-	324
Unrestricted net assets	58	16	3,116	3,190
Total net assets	<u>\$ 839</u>	<u>\$ 16</u>	<u>\$ 3,116</u>	<u>\$ 3,971</u>

# CHEROKEE NATION

## COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2010 (Dollars in Thousands)

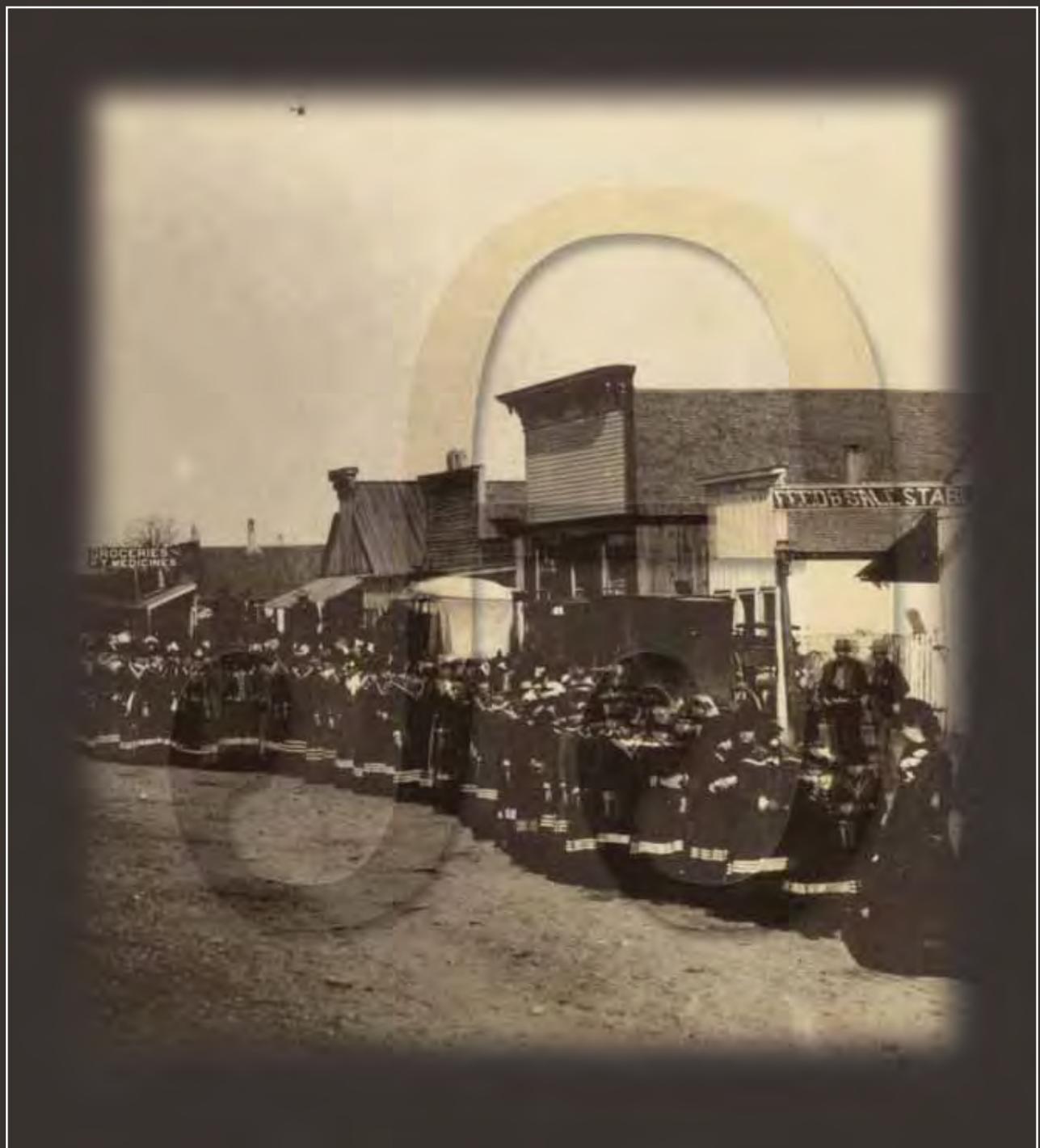
	<u>Tsa-La-Gi Apartments</u>	<u>Landfill Closure</u>	<u>EDTA</u>	<u>Total</u>
Operating revenues:				
Property rentals	\$ 506	\$ -	\$ -	\$ 506
Other	8	128	38	174
Total operating revenues	<u>514</u>	<u>128</u>	<u>38</u>	<u>680</u>
Operating expenses:				
Salaries and wages	39	-	-	39
Other services and charges	258	128	32	418
Materials and supplies	19	-	-	19
Depreciation	54	-	-	54
Total operating expenses	<u>370</u>	<u>128</u>	<u>32</u>	<u>530</u>
Operating income (loss)	<u>144</u>	<u>-</u>	<u>6</u>	<u>150</u>
Nonoperating revenues (expenses):				
Interest income	2	-	147	149
Interest expense	(16)	-	(15)	(31)
Net nonoperating revenues (expenses)	<u>(14)</u>	<u>-</u>	<u>132</u>	<u>118</u>
Income (loss) before transfers	130	-	138	268
Transfers in	-	-	508	508
Change in net assets	130	-	646	776
Total net assets - beginning	<u>709</u>	<u>16</u>	<u>2,470</u>	<u>3,195</u>
Total net assets - ending	<u>\$ 839</u>	<u>\$ 16</u>	<u>\$ 3,116</u>	<u>\$ 3,971</u>

# CHEROKEE NATION

## COMBINING STATEMENT OF CASH FLOWS - NONMAJOR ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2010 (Dollars in Thousands)

	Tsa-La-Gi Apartments	Landfill Closure	EDTA	Total
Cash flows from operating activities:				
Receipts from customers	\$ 506	\$ -	\$ -	\$ 506
Internal activity - payments from other funds	-	-	(80)	(80)
Payments to suppliers	(270)	(128)	(31)	(429)
Payments to employees	(39)	-	-	(39)
Internal activity - payment to other funds	8	-	(14)	(6)
Internal activity - payments from other Component Units	-	56	-	56
Other receipts	8	128	38	174
Net cash provided by (used for) operating activities	<u>213</u>	<u>56</u>	<u>(87)</u>	<u>182</u>
Cash flows from noncapital financing activities				
Transfer from other funds	-	-	508	508
Principal payment on notes payable	-	-	(59)	(59)
Interest payment on notes payable	-	-	(15)	(15)
Net cash provided by (used for) noncapital financing activities	<u>-</u>	<u>-</u>	<u>434</u>	<u>434</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(151)	-	-	(151)
Principal payments on capital debt and leases	(107)	-	-	(107)
Interest payments on capital debt and leases	(16)	-	-	(16)
Net cash used for capital and related financing activities	<u>(274)</u>	<u>-</u>	<u>-</u>	<u>(274)</u>
Cash flows from investing activities				
Interest received	2	-	147	149
Decrease(increase) in notes receivable, net	-	-	(735)	(735)
Net cash provided by (used for) investing activities	<u>2</u>	<u>-</u>	<u>(588)</u>	<u>(586)</u>
Net increase (decrease) in cash and cash equivalents	(59)	56	(241)	(244)
Cash and cash equivalents, October 1, 2009	<u>504</u>	<u>2,292</u>	<u>1,045</u>	<u>3,841</u>
Cash and cash equivalents, September 30, 2010	<u>\$ 445</u>	<u>\$ 2,348</u>	<u>\$ 804</u>	<u>\$ 3,597</u>
Cash and cash equivalents consist of:				
Unrestricted cash and cash equivalents	\$ 100	\$ -	\$ 804	\$ 904
Restricted cash and cash equivalents	345	2,348	-	2,693
Total Cash and Cash Equivalents, September 30, 2010	<u>\$ 445</u>	<u>\$ 2,348</u>	<u>\$ 804</u>	<u>\$ 3,597</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ 144	\$ -	\$ 6	\$ 150
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	54	-	-	54
Change in assets and liabilities:				
Receivables and due from (to) other funds	-	76	(80)	(4)
Other current assets	-	-	1	1
Liabilities and other payables	15	(20)	(14)	(19)
Net cash provided by (used for) operating activities	<u>\$ 213</u>	<u>\$ 56</u>	<u>\$ (87)</u>	<u>\$ 182</u>

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# INTERNAL SERVICE FUNDS

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**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, such as accounting, human resources and acquisition management, to other funds of the Nation.

# CHEROKEE NATION

## COMBINING STATEMENT OF NET ASSETS - INTERNAL SERVICE FUNDS

SEPTEMBER 30, 2010

(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	\$ -	\$ 31	\$ 8	\$ 39
Accounts receivable, net	-	-	(4)	(4)
Due from other funds	-	19,779	4,945	24,724
Due from component units	-	56	49	105
Inventories	-	-	131	131
Other current assets	-	-	256	256
Total current assets	<u>-</u>	<u>19,866</u>	<u>5,385</u>	<u>25,251</u>
Noncurrent assets:				
Capital assets, net	<u>11,145</u>	<u>-</u>	<u>1,251</u>	<u>12,396</u>
Total noncurrent assets	<u>11,145</u>	<u>-</u>	<u>1,251</u>	<u>12,396</u>
Total assets	<u>11,145</u>	<u>19,866</u>	<u>6,636</u>	<u>37,647</u>
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued liabilities	3	9,600	469	10,072
Current portion of long-term debt	552	-	-	552
Due to other funds	2,661	-	-	2,661
Compensated absences	-	6,238	-	6,238
Other current liabilities	-	2,324	4,168	6,492
Total current liabilities	<u>3,216</u>	<u>18,162</u>	<u>4,637</u>	<u>26,015</u>
Noncurrent liabilities:				
Long-term debt	<u>965</u>	<u>-</u>	<u>-</u>	<u>965</u>
Total noncurrent liabilities	<u>965</u>	<u>-</u>	<u>-</u>	<u>965</u>
Total liabilities	<u>4,181</u>	<u>18,162</u>	<u>4,637</u>	<u>26,980</u>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	9,628	-	1,251	10,879
Unrestricted net assets/(deficit)	<u>(2,664)</u>	<u>1,704</u>	<u>748</u>	<u>(212)</u>
Total net assets	<u>\$ 6,964</u>	<u>\$ 1,704</u>	<u>\$ 1,999</u>	<u>\$ 10,667</u>

## CHEROKEE NATION

### COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - INTERNAL SERVICE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2010 (Dollars in Thousands)

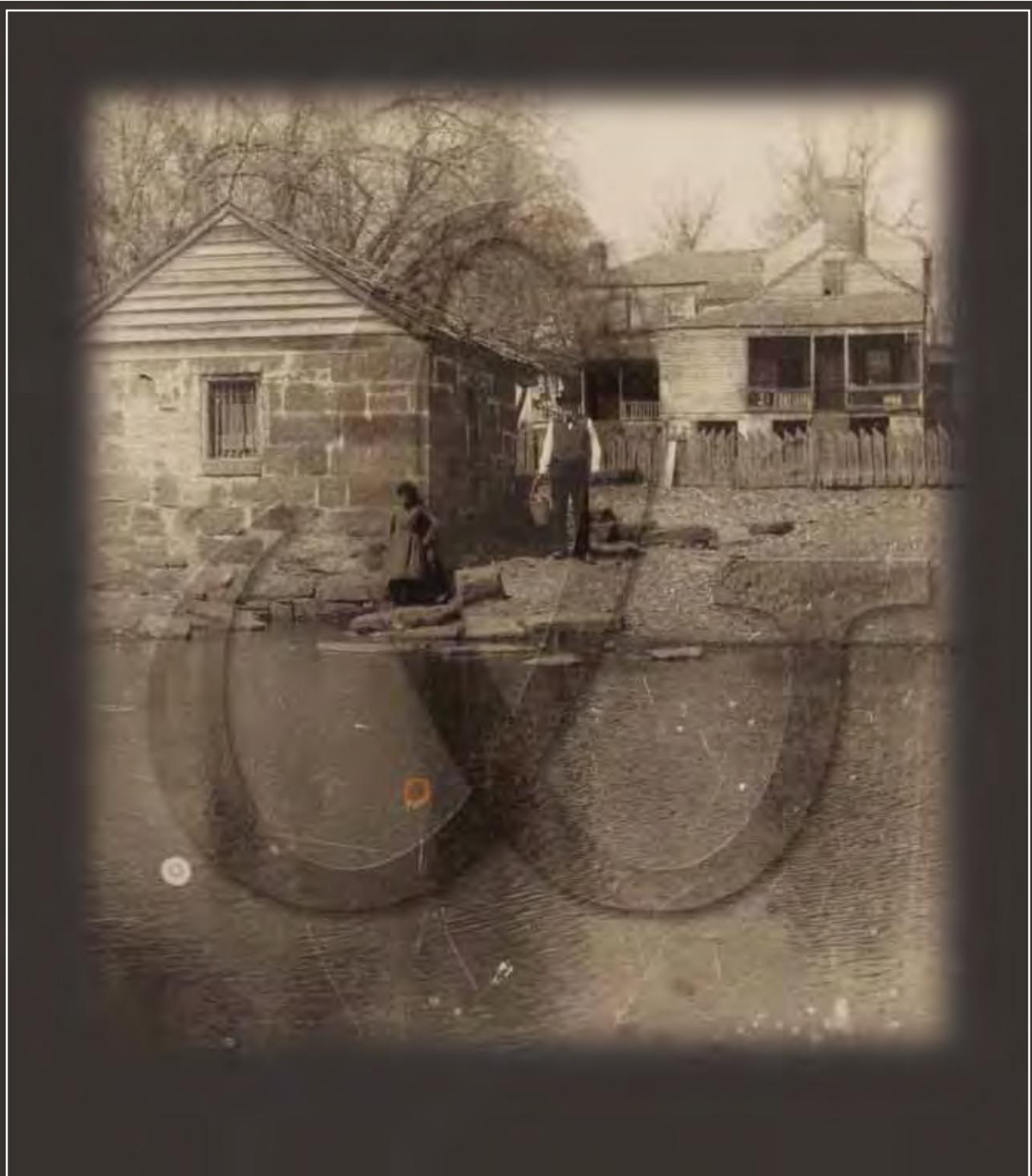
	Internal Leases	Fringe Pool	Indirect Cost Pool	Total
Operating revenues:				
Property rentals	\$ 4	\$ -	\$ -	\$ 4
Charges for services and goods	3,493	55,253	33,224	91,970
Other	79	-	125	204
Total operating revenues	<u>3,576</u>	<u>55,253</u>	<u>33,349</u>	<u>92,178</u>
Operating expenses:				
Cost of sales	(18)	-	411	393
Salaries and wages	1,739	57,083	16,678	75,500
Other services and charges	1,295	8	14,138	15,441
Materials and supplies	146	-	1,267	1,413
Depreciation	499	-	605	1,104
Total operating expenses	<u>3,661</u>	<u>57,091</u>	<u>33,099</u>	<u>93,851</u>
Operating income (loss)	<u>(85)</u>	<u>(1,838)</u>	<u>250</u>	<u>(1,673)</u>
Nonoperating revenues (expenses):				
Interest expense	(66)	-	(14)	(80)
Gain/(loss) on sale of capital assets	-	-	(18)	(18)
Net nonoperating revenues (expenses)	<u>(66)</u>	<u>-</u>	<u>(32)</u>	<u>(98)</u>
Income (loss) before transfers	(151)	(1,838)	218	(1,771)
Capital contribution	275	-	-	275
Change in net assets	124	(1,838)	218	(1,496)
Total net assets/(deficit) - beginning	<u>6,840</u>	<u>3,542</u>	<u>1,781</u>	<u>12,163</u>
Total net assets - ending	<u>\$ 6,964</u>	<u>\$ 1,704</u>	<u>\$ 1,999</u>	<u>\$ 10,667</u>

# CHEROKEE NATION

## COMBINING STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2010 (Dollars in Thousands)

	<u>Internal Leases</u>	<u>Fringe Pool</u>	<u>Indirect Cost Pool</u>	<u>Total</u>
Cash flows from operating activities:				
Receipts from customers - other funds	\$ 3,497	\$ 55,490	\$ 33,329	\$ 92,316
Payments to suppliers	(1,424)	-	(14,746)	(16,170)
Payments to employees	(1,739)	(56,541)	(16,678)	(74,958)
Internal activity - payments to other funds	205	(87)	(1,493)	(1,375)
Internal activity - payments to other component units	-	(10)	(12)	(22)
Other receipts	79	1,142	125	1,346
Net cash provided by (used for) operating activities	<u>618</u>	<u>(6)</u>	<u>525</u>	<u>1,137</u>
Cash flows from capital and related financing activities				
Purchases of capital assets	(18)	-	(230)	(248)
Principal paid on capital debt	(534)	-	(281)	(815)
Interest paid on capital debt	(66)	-	(14)	(80)
Net cash used for capital and related financing activities	<u>(618)</u>	<u>-</u>	<u>(525)</u>	<u>(1,143)</u>
Net increase (decrease) in cash and cash equivalents	-	(6)	-	(6)
Cash and cash equivalents, October 1, 2009	<u>-</u>	<u>37</u>	<u>8</u>	<u>45</u>
Cash and cash equivalents, September 30, 2010	<u>\$ -</u>	<u>\$ 31</u>	<u>\$ 8</u>	<u>\$ 39</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:				
Operating income (loss)	\$ (85)	\$ (1,838)	\$ 250	\$ (1,673)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	499	-	605	1,104
Change in assets and liabilities:				
Receivables and due from (to) other funds	-	140	(1,400)	(1,260)
Inventories	-	-	3	3
Other current assets	-	-	(29)	(29)
Accounts and other payables	204	1,692	1,096	2,992
Net cash provided by (used for) operating activities	<u>\$ 618</u>	<u>\$ (6)</u>	<u>\$ 525</u>	<u>\$ 1,137</u>

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## COMPONENT UNITS

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**CHEROKEE NATION**

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

SEPTEMBER 30, 2010

(Dollars in Thousands)

	Cherokee Nation Businesses, LLC (CNB)	Cherokee Nation Entertainment, LLC (CNE)	Cherokee Services Group, LLC (CSG)	Cherokee Nation Technologies, LLC (CNT)	Cherokee Nation Industries, LLC (CNI)	Cherokee Nation Technology Solutions LLC (CNTS)	Cherokee Nation Security & Safety LLC (CNSS)	Cherokee Nation Property Management LLC (CNPM)	Eliminations	Total
<b>ASSETS</b>										
Current assets:										
Cash and cash equivalents	\$ 1,215	\$ 23,025	\$ 1,610	\$ 248	\$ 7,367	\$ 729	\$ 103	\$ 14	\$ -	\$ 34,311
Restricted cash	150	8,262	-	-	-	-	-	-	-	8,412
Receivables, net	283	4,311	5,405	547	16,074	1,395	21	-	(375)	27,661
Inventories	-	3,965	-	28	11,283	-	-	-	-	15,276
Due from other component units	4,214	2,442	-	-	-	-	-	-	(6,656)	-
Notes receivable	18	-	-	-	-	-	-	-	-	18
Other current assets	147	4,358	17	38	260	-	-	4	-	4,824
Total current assets	6,027	46,363	7,032	861	34,984	2,124	124	18	(7,031)	90,502
Notes receivable	3,342	-	-	-	-	-	-	-	(2,000)	1,342
Other assets	753	-	3,168	438	679	-	-	-	-	5,038
Investment in partnerships/joint ventures	5,095	-	-	-	-	-	-	-	-	5,095
Capital assets, net	1,960	445,415	-	34	7,507	15	-	2,919	-	457,850
Total noncurrent assets	11,150	445,415	3,168	472	8,186	15	-	2,919	(2,000)	489,325
Total assets	17,177	491,778	10,200	1,333	43,170	2,139	124	2,937	(9,031)	559,827
<b>LIABILITIES</b>										
Current liabilities:										
Accounts payable and accrued liabilities	5,738	44,466	3,028	520	13,483	574	192	-	(389)	67,612
Current portion of long-term debt	-	-	-	-	58	-	-	-	-	58
Due to primary government	54	3,320	-	-	-	-	-	-	-	3,374
Due to other component units	2,442	-	1,957	417	1,773	42	-	11	(6,642)	-
Total current liabilities	8,234	47,786	4,985	937	15,314	616	192	11	(7,031)	71,044
Long-term debt	18,000	-	-	-	1,000	1,000	-	-	(2,000)	18,000
Total liabilities	26,234	47,786	4,985	937	16,314	1,616	192	11	(9,031)	89,044
<b>NET ASSETS</b>										
Invested in capital assets, net of related debt	1,960	439,678	-	34	7,507	15	-	2,919	-	452,113
Restricted for:	-	4,104	-	-	-	-	-	-	-	4,104
Construction	-	210	5,215	362	19,349	508	(68)	7	-	14,566
Unrestricted net assets	(11,017)	210	5,215	362	19,349	508	(68)	7	-	14,566
Total net assets	\$ (9,057)	\$ 443,992	\$ 5,215	\$ 396	\$ 26,856	\$ 523	\$ (68)	\$ 2,926	\$ -	\$ 470,783

**CHEROKEE NATION**

**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS (DEFICIT) -  
CHEROKEE NATION BUSINESSES, LLC  
FOR THE YEAR ENDED SEPTEMBER 30, 2010  
(Dollars in Thousands)**

	Cherokee Nation Businesses, LLC (CNB)	Cherokee Nation Entertainment, LLC (CNE)	Cherokee Services Group LLC (CSG)	Cherokee Nation Technologies, LLC (CNT)	Cherokee Nation Industries, LLC (CNI)	Cherokee Nation Technology Solutions LLC (CNTS)	Cherokee Nation Security & Safety LLC (CNSS)	Cherokee Nation Property Management LLC (CNPM)	Eliminations	Total
Operating revenues:										
Charges for services and goods	\$ 5,737	\$ 455,053	\$ 23,664	\$ 2,952	\$ 113,218	\$ 2,394	\$ 789	\$ 14	\$ (8,737)	\$ 595,084
Income from investments in joint ventures	1,627	-	-	-	-	-	-	-	-	1,627
Total operating revenues	7,364	455,053	23,664	2,952	113,218	2,394	789	14	(8,737)	596,711
Operating expenses:										
Cost of sales/operations	-	94,582	14,053	901	93,923	2,100	-	-	-	205,559
Salaries and wages	7,273	141,511	3,992	1,734	7,001	412	882	-	-	162,805
Other services and charges	3,342	96,900	3,828	423	9,503	176	29	7	(8,479)	105,729
Depreciation and amortization	463	33,399	154	49	1,230	7	-	13	-	35,315
Total operating expenses	11,078	366,392	22,027	3,107	111,657	2,695	911	20	(8,479)	509,408
Operating income (loss)	(3,714)	88,661	1,637	(155)	1,561	(301)	(122)	(6)	(258)	87,303
Nonoperating revenues (expenses)										
Interest/investment income	1,003	-	-	-	51	-	-	-	(906)	148
Interest expense	(1,070)	(101)	-	(2)	(88)	-	-	-	906	(355)
Other, net	-	(462)	-	-	649	-	-	-	258	445
Net nonoperating revenues (expenses)	(67)	(563)	-	(2)	612	-	-	-	258	238
Net income (loss)	(3,781)	88,098	1,637	(157)	2,173	(301)	(122)	(6)	-	87,541
Dividends to primary government	(26,429)	-	-	-	-	-	-	-	-	(26,429)
Transfers to (from) component unit	18,251	(28,114)	1,475	2	4,270	1,130	54	2,932	-	-
Capital grants	-	(733)	-	-	-	-	-	-	-	(733)
Change in net assets	(11,959)	59,251	3,112	(155)	6,443	829	(68)	2,926	-	60,379
Net assets, beginning of year	2,902	384,741	2,103	551	20,413	(306)	-	-	-	410,404
Net assets, end of year	(9,057)	443,992	5,215	396	26,856	523	(68)	2,926	-	470,783



## BUDGETARY INFORMATION

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# CHEROKEE NATION

## SCHEDULE OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - BUDGET AND ACTUAL (GAAP BASIS) - ENTERPRISE FUNDS FOR THE YEAR ENDED SEPTEMBER 30, 2010 (Dollars in Thousands)

	Budgeted Amounts		Actual	Variance with Final Budget over/(under)
	Original	Final		
Operating revenues:				
Property rentals	\$ 508	\$ 508	\$ 506	\$ (2)
Other	12	26	174	148
Total operating revenues	<u>520</u>	<u>534</u>	<u>680</u>	<u>146</u>
Operating expenses:				
Salaries and wages	37	37	39	2
Other services and charges	695	717	417	(300)
Materials and supplies	11	11	19	8
Depreciation	50	50	54	4
Total operating expenses	<u>793</u>	<u>815</u>	<u>529</u>	<u>(286)</u>
Operating income (loss)	<u>(273)</u>	<u>(281)</u>	<u>151</u>	<u>432</u>
Nonoperating revenues(expenses):				
Interest income	1,030	1,063	623	(440)
Interest expense	(1,093)	(1,101)	(501)	600
Net nonoperating revenue (expenses)	<u>(63)</u>	<u>(38)</u>	<u>122</u>	<u>160</u>
Income (loss) before transfers	(336)	(319)	273	592
Transfers in	<u>2,471</u>	<u>2,071</u>	<u>508</u>	<u>(1,563)</u>
Changes in net assets	2,135	1,752	781	(971)
Total net assets - beginning	3,191	3,191	3,191	-
Total net assets - ending	<u>\$ 5,326</u>	<u>\$ 4,943</u>	<u>3,972</u>	<u>\$ (971)</u>
Adjustment to reflect the consolidation of Internal Service Funds activities related to Enterprise Funds			(63)	
Net assets of Enterprise Funds			<u>\$ 3,909</u>	

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# STATISTICAL SECTION

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

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

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

**CHEROKEE NATION**

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Governmental Activities</b>										
Invested in capital assets, net of related debt	\$ 42,927	\$ 26,714	\$ 25,655	\$ 29,403	\$ 35,969	\$ 47,627	\$ 53,781	\$ 62,021	\$ 74,152	\$ 78,468
Restricted	42,406	41,483	20,421	20,691	16,822	23,250	26,278	36,739	61,015	89,899
Unrestricted	(2,883)	1,133	53,444	65,566	66,627	69,039	83,373	87,255	68,411	50,110
Total governmental activities net assets	<u>82,450</u>	<u>69,330</u>	<u>99,520</u>	<u>115,660</u>	<u>119,418</u>	<u>139,916</u>	<u>163,432</u>	<u>186,015</u>	<u>203,578</u>	<u>218,477</u>
<b>Business-type activities</b>										
Invested in capital assets, net of related debt	3,289	3,460	4,839	4,388	5,519	4,653	162	204	253	457
Restricted	-	414	-	-	-	-	-	310	398	324
Unrestricted	(1,436)	361	(372)	(685)	(361)	420	1,072	2,029	2,478	3,128
Total business-type activities net assets	<u>1,853</u>	<u>4,235</u>	<u>4,467</u>	<u>3,703</u>	<u>5,158</u>	<u>5,073</u>	<u>1,234</u>	<u>2,543</u>	<u>3,129</u>	<u>3,909</u>
<b>Primary government</b>										
Invested in capital assets, net of related debt	46,216	30,174	30,494	33,791	41,488	52,280	53,943	62,225	74,405	78,925
Restricted	42,406	41,897	20,421	20,691	16,822	23,250	26,278	37,049	61,413	90,223
Unrestricted	(4,319)	1,494	53,072	64,881	66,266	69,459	84,445	89,284	70,889	53,238
Total primary government net assets	<u>\$ 84,303</u>	<u>\$ 73,565</u>	<u>\$ 103,987</u>	<u>\$ 119,363</u>	<u>\$ 124,576</u>	<u>\$ 144,989</u>	<u>\$ 164,666</u>	<u>\$ 188,558</u>	<u>\$ 206,707</u>	<u>\$ 222,386</u>

2002 through 2010 revenues are not comparable to 2001 due to the adoption of GASB 34.

**CHEROKEE NATION**

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Expenses</b>										
Governmental activities:										
Tribal Government	\$ 15,960	\$ 9,373	\$ 12,075	\$ 13,627	\$ 17,023	\$ 16,433	\$ 21,624	\$ 24,639	\$ 29,323	\$ 29,841
Health Services	45,889	62,235	67,356	74,995	79,344	87,061	92,163	103,177	179,806	206,013
Education Services	8,131	29,120	32,423	32,901	33,429	36,588	39,096	40,365	46,200	54,085
Human Services	25,001	25,203	24,671	24,160	24,824	27,307	28,962	37,003	36,231	37,932
Community Services	-	45,478	51,252	35,163	35,060	42,867	49,131	51,693	72,334	75,600
Other Tribal Services	53,134	5,431	8,750	11,193	10,623	12,712	15,650	15,033	-	-
Interest on long-term debt	299	235	689	970	1,651	1,975	3,044	1,503	1,525	1,309
Total governmental activities expenses	148,414	177,075	197,216	193,009	201,954	224,943	249,670	273,413	365,419	404,780
Business-type activities:										
Title VI	-	-	-	-	-	-	-	1,458	826	469
Tsa-La-Gi Apartments	407	418	359	356	352	390	388	394	393	387
Cherokee Trails Golf Club	153	170	192	39	-	-	-	-	-	-
Landfill Closure	795	1,459	1,982	1,917	2,252	1,794	2,853	2,292	-	128
EDTA	-	-	-	-	127	182	139	373	73	47
Ranch Operations	199	169	52	6	-	-	-	-	-	-
Child Development	884	1,091	1,358	1,235	1,048	-	-	-	-	-
Other Enterprises	2	3	1	-	15	7	18	-	-	-
Total business-type activities expenses	2,440	3,310	3,944	3,553	3,794	2,373	3,398	4,517	1,292	1,031
Total primary government expenses	\$ 150,854	\$ 180,385	\$ 201,160	\$ 196,562	\$ 205,748	\$ 227,316	\$ 253,068	\$ 277,930	\$ 366,711	\$ 405,811
<b>Program Revenues</b>										
Governmental activities:										
Charges for services:										
Tribal Government	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4	\$ -	\$ 640	\$ 4,237
Health Services	-	-	-	-	-	58,351	-	-	52,274	58,351
Community Services	-	-	-	-	-	-	-	1,120	4,054	994
Other Tribal Services	1,730	451	405	1,237	2,001	2,572	2,938	3,300	-	-
Operating grants and contributions	120,105	103,642	113,394	100,209	104,278	108,177	128,822	127,323	258,558	289,034
Capital grants and contributions	-	-	-	-	-	411	142	86	1,994	989
Total governmental activities program revenues	121,835	104,093	113,799	101,446	106,279	169,511	131,906	131,829	317,520	353,605
Business-type activities:										
Charges for services:										
Title VI	-	-	-	-	-	-	-	1,303	816	474
Tsa-La-Gi Apartments	345	392	384	437	475	492	498	525	519	514
Cherokee Trails Golf Club	103	84	70	6	-	-	-	-	-	-
Landfill Closure	1,483	2,327	2,109	1,355	1,937	1,216	2,044	1,126	-	128
EDTA	-	-	-	-	14	23	13	195	168	184
Ranch Operations	184	165	32	-	-	-	-	-	-	-
Child Development Centers	430	1,118	1,354	1,237	766	-	-	-	-	-
Other Enterprises	14	11	12	10	-	6	7	-	-	-
Operating grants and contributions	-	-	-	-	104	119	-	-	-	-
Total business-type activities program revenues	2,559	4,097	3,961	3,045	3,296	1,856	2,562	3,149	1,503	1,300
Total primary government program revenues	\$ 124,394	\$ 108,190	\$ 117,760	\$ 104,491	\$ 109,575	\$ 171,367	\$ 134,468	\$ 134,978	\$ 319,023	\$ 354,905
<b>Net (Expense)/Revenue</b>										
Governmental activities	\$ (26,579)	\$ (72,982)	\$ (83,417)	\$ (91,563)	\$ (95,675)	\$ (55,432)	\$ (117,764)	\$ (141,584)	\$ (47,899)	\$ (51,175)
Business-type activities	119	787	17	(508)	(498)	(517)	(836)	(1,368)	211	269
Total primary government net expense	\$ (26,460)	\$ (72,195)	\$ (83,400)	\$ (92,071)	\$ (96,173)	\$ (55,949)	\$ (118,600)	\$ (142,952)	\$ (47,688)	\$ (50,906)
<b>General Revenues and Other Changes in Net Assets</b>										
Governmental activities:										
Motor fuel tax	6,895	7,294	7,468	7,576	8,094	7,406	7,228	7,088	7,514	7,256
Motor vehicle tax	-	3,342	4,961	5,929	6,382	7,188	7,658	8,161	7,400	7,707
Tobacco tax	1,668	1,890	2,052	2,142	3,133	7,063	6,956	6,254	5,312	4,194
Gaming tax and licenses	348	480	611	262	-	-	-	-	-	-
Sales tax	46	75	310	249	686	1,144	1,215	1,208	1,610	2,314
Grants and contributions not restricted to specific programs	-	58,236	66,249	65,223	62,015	78,849	76,989	100,355	10,398	11,143
Unrestricted investment earnings	3,256	1,793	1,563	1,588	3,011	5,941	7,631	5,439	2,293	2,056
Indirect cost settlement	4,377	254	646	11,634	-	-	-	-	-	-
Dividends from component units	4,300	4,050	8,725	11,717	17,919	25,444	33,669	35,001	26,444	26,429
Arkansas River Drybed Lands Settlement	-	-	20,000	-	-	-	-	-	-	-
Miscellaneous revenue	5,081	634	1,144	1,232	898	1,199	1,375	2,222	4,848	5,483
Equity interest in joint venture	-	-	-	-	184	-	-	-	-	-
Gain/(loss) on disposals	-	-	-	1	-	-	-	-	-	-
Transfers	(454)	(1,589)	(122)	150	(2,889)	43	(1,441)	(1,561)	(357)	(508)
Total governmental activities	25,517	76,459	113,607	107,703	99,433	134,277	141,280	164,167	65,462	66,074
Business-type activities:										
Unrestricted investment earnings	26	6	61	19	52	334	393	72	18	3
Miscellaneous revenue	-	-	-	-	-	69	81	-	-	-
Gain/(loss) on disposals	-	-	32	(125)	-	72	-	1,044	-	-
Special item	-	-	-	-	-	-	(4,918)	-	-	-
Transfers	454	1,589	122	(150)	1,901	(43)	1,441	1,561	357	508
Total business-type activities	480	1,595	215	(256)	1,953	432	(3,003)	2,677	375	511
Total primary government	\$ 25,997	\$ 78,054	\$ 113,822	\$ 107,447	\$ 101,386	\$ 134,709	\$ 138,277	\$ 166,844	\$ 65,837	\$ 66,585
<b>Change in Net Assets</b>										
Governmental activities	\$ (1,062)	\$ 3,477	\$ 30,190	\$ 16,140	\$ 3,758	\$ 78,845	\$ 23,516	\$ 22,583	\$ 17,563	\$ 14,899
Business-type activities	599	2,382	232	(764)	1,455	(85)	(3,839)	1,309	586	780
Total primary government	\$ (463)	\$ 5,859	\$ 30,422	\$ 15,376	\$ 5,213	\$ 78,760	\$ 19,677	\$ 23,892	\$ 18,149	\$ 15,679

2002 through 2010 revenues are not comparable to 2001 due to the adoption of GASB 34.

# CHEROKEE NATION

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

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<u>Year</u>	<u>Motor Fuel Tax</u> *	<u>Motor Vehicle Tax</u>	<u>Tobacco Tax</u>	<u>Sales Tax</u>	<u>Total</u>
2010	\$ 7,256	\$ 7,707	\$ 4,194	\$ 2,314	\$ 21,471
2009	7,514	7,400	5,312	1,610	21,836
2008	7,088	8,161	6,254	1,208	22,711
2007	7,228	7,658	6,956	1,215	23,057
2006	7,406	7,188	7,063	1,144	22,801
2005	8,094	6,382	3,133	686	18,295
2004	7,576	5,929	2,142	249	15,896
2003	7,468	4,961	2,052	310	14,791
2002	7,294	3,342	1,890	75	12,601
2001	6,895	-	1,668	46	8,609

2002 through 2010 revenues are not comparable to 2001 due to the adoption of GASB 34.

\* In 1996, the Nation and the State of Oklahoma entered into a compact for the purpose of levying a tax on the use and sale of motor fuel on lands subject to the jurisdiction of the Nation. The apportionment is based on reported gallons sold and reported Tribal population.

CHEROKEE NATION

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

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
General Fund										
Reserved	\$ 21,924	\$ 25,781	\$ 30,535	\$ 33,287	\$ 34,792	\$ 36,282	\$ 42,220	\$ 50,241	\$ 46,895	\$ 46,973
Unreserved	(2,883)	1,501	4,638	10,726	24,175	36,576	38,861	34,652	21,674	14,636
Total general fund	\$ 19,041	\$ 27,282	\$ 35,173	\$ 44,013	\$ 58,967	\$ 72,858	\$ 81,081	\$ 84,893	\$ 68,569	\$ 61,609
All Other Governmental Funds										
Reserved	\$ 20,482	\$ 15,702	\$ 16,696	\$ 21,372	\$ 21,696	\$ 24,572	\$ 41,018	\$ 32,896	\$ 59,642	\$ 102,399
Unreserved, reported in:										
Special revenue funds	-	-	-	583	583	-	-	-	-	-
Capital projects fund	-	-	-	-	-	(524)	-	-	-	-
Total all other governmental funds	\$ 20,482	\$ 15,702	\$ 16,696	\$ 21,955	\$ 22,279	\$ 24,048	\$ 41,018	\$ 32,896	\$ 59,642	\$ 102,399

2002 through 2010 revenues are not comparable to 2001 due to the adoption of GASB 34.

**CHEROKEE NATION**

**CHANGES IN FUND BALANCES, GOVERNMENTAL FUNDS  
LAST TEN FISCAL YEARS (Dollars in Thousands)  
(modified accrual basis of accounting)**

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
<b>Revenues</b>										
Intergovernmental	\$ 120,105	\$ 151,117	\$ 167,594	\$ 150,516	\$ 147,048	\$ 166,252	\$ 178,508	\$ 203,570	\$ 255,401	\$ 289,094
Property rentals	2,279	451	394	585	461	513	575	1,750	4,225	4,432
Motor fuel tax revenues	6,895	7,294	7,468	7,576	8,676	7,406	7,228	7,088	7,514	7,256
Tax and license revenues	2,062	5,788	7,934	9,234	11,741	17,458	18,196	18,292	17,382	17,840
Interest	3,285	2,145	2,320	3,480	5,238	9,651	13,229	7,189	3,013	2,784
Trust fund income	47	29	24	90	79	104	67	190	100	101
Indirect cost settlement	4,377	254	-	646	8,314	2,201	-	-	-	-
Dividends from component units	-	4,050	8,725	11,717	17,919	25,444	33,669	35,001	26,444	26,429
3rd party revenues	-	-	-	-	-	-	16,031	17,441	53,868	60,571
Income from HACN	-	-	-	-	-	-	-	-	5,851	1,425
Other	11,432	11,011	11,773	19,916	27,185	22,202	14,095	7,006	7,546	8,791
<b>Total revenues</b>	<b>150,482</b>	<b>182,139</b>	<b>206,232</b>	<b>203,760</b>	<b>226,661</b>	<b>251,231</b>	<b>281,598</b>	<b>297,527</b>	<b>381,344</b>	<b>418,723</b>
<b>Expenditures</b>										
Tribal Government	15,960	9,964	10,484	13,645	15,956	15,029	21,377	24,679	28,270	28,105
Health Services	70,890	62,822	66,732	73,248	77,829	84,528	94,478	103,009	177,697	201,773
Education Services	16,716	29,463	31,936	32,158	32,567	35,788	39,618	40,561	45,972	53,455
Human Services	37,048	25,269	24,363	23,748	24,516	26,839	29,238	37,290	36,214	37,625
Community Services	-	41,631	61,537	44,486	46,643	42,420	49,318	57,821	66,138	74,971
Other tribal services	87	5,309	8,472	9,658	10,834	11,789	15,705	14,640	-	-
Debt service										
Principal	292	313	332	1,272	1,685	3,117	10,912	2,002	5,003	2,148
Interest	299	71	454	797	1,472	1,819	2,911	908	1,498	1,251
Capital outlay	7,209	5,289	3,017	1,934	9,659	18,162	26,190	15,436	9,958	7,489
<b>Total expenditures</b>	<b>148,501</b>	<b>180,131</b>	<b>207,327</b>	<b>200,946</b>	<b>221,161</b>	<b>239,491</b>	<b>289,747</b>	<b>296,346</b>	<b>370,750</b>	<b>406,817</b>
Excess of revenues over (under) expenditures	1,981	2,008	(1,095)	2,814	5,500	11,740	(8,149)	1,181	10,594	11,906
<b>Other Financing Sources (Uses)</b>										
Issuance of long-term debt	-	-	10,245	10,189	13,231	4,260	34,660	1,448	-	24,000
Fees associated with debt issuance	-	-	-	-	-	128	-	-	-	-
Insurance recoveries	-	-	-	-	-	27	8	244	273	399
Other proceeds	-	-	-	976	-	-	-	-	-	-
Transfers in	6,869	3,703	1,867	2,163	5,900	17,425	20,637	15,549	9,957	21,191
Transfers out	(2,663)	(8,994)	(2,132)	(2,043)	(9,353)	(17,920)	(21,963)	(22,732)	(10,402)	(21,699)
Total other financing sources (uses)	4,206	(5,291)	9,980	11,285	9,778	3,920	33,342	(5,491)	(172)	23,891
<b>Net change in fund balances</b>	<b>\$ 6,187</b>	<b>\$ (3,283)</b>	<b>\$ 8,885</b>	<b>\$ 14,099</b>	<b>\$ 15,278</b>	<b>\$ 15,660</b>	<b>\$ 25,193</b>	<b>\$ (4,310)</b>	<b>\$ 10,422</b>	<b>\$ 35,797</b>
Debt service as a percentage of noncapital expenditures	0.42%	0.22%	0.38%	1.04%	1.49%	2.23%	5.24%	1.04%	1.80%	0.85%

2002 through 2010 revenues are not comparable to 2001 due to the adoption of GASB 34.

# CHEROKEE NATION

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

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<u>Year</u>	<u>Motor Vehicle Registrations</u>	<u>Boat/ Motor Registrations</u>	<u>Total All Registrations</u>
2010	19,322	651	19,973
2009	18,300	593	18,893
2008	21,201	621	21,822
2007	20,548	723	21,271
2006	19,436	570	20,006
2005	17,803	587	18,390
2004	18,396	718	19,114
2003	18,099	671	18,770
2002	18,094	324	18,418

Source: Cherokee Nation Tax Commission

\*Note: The Nation did not collect tax before FY 2002, therefore, only nine years of data is currently available.

**CHEROKEE NATION**

**GENERAL GOVERNMENTAL REVENUES BY SOURCE (GAAP BASIS)**

LAST TEN FISCAL YEARS (Dollars in Thousands)

Fiscal Year	Charges for Services	Operating			Capital			Motor Vehicle Tax	Motor Fuel Tax	Other Tax Revenues	Unrestricted		Investment Earnings	Dividends from Components		Indirect Cost Settlement	Miscellaneous	Equity Interest in Joint Venture	Gain/(loss) on disposals	Total
		Grants & Contributions				Components	Components													
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	
2008	7,569	127,323	86	7,088	8,161	7,462	100,355	5,511	35,001	-	2,222	-	-	-	-	-	-	-	300,778	
2007	5,504	128,822	142	7,228	7,658	8,171	76,989	8,024	33,669	-	1,456	-	-	-	-	-	-	-	277,663	
2006	4,313	108,296	411	7,406	7,188	8,207	78,849	6,275	25,444	-	1,268	-	-	-	-	-	-	72	247,729	
2005	5,193	104,382	-	8,094	6,382	3,819	62,015	3,063	17,919	-	898	-	-	-	-	-	184	-	211,949	
2004	4,282	100,209	-	7,576	5,929	2,653	65,223	1,607	11,717	11,634	1,108	-	-	-	-	-	-	-	211,938	
2003	4,366	113,394	-	7,468	4,961	2,973	66,249	1,624	8,725	646	1,144	-	-	-	-	-	-	-	211,550	
2002	4,548	103,642	-	7,294	3,342	2,445	58,236	1,799	4,050	254	634	-	-	-	-	-	-	-	186,244	
2001	4,289	120,105	-	6,895	-	2,062	-	3,282	4,300	4,377	5,081	-	-	-	-	-	-	-	150,391	

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

2002 through 2010 revenues are not comparable to 2001 due to the adoption of GASB 34.

**CHEROKEE NATION**

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

Years	Tribal Government	Health Services	Education Services	Human Services	Community Services	Other Tribal Services	Interest on Long Term Debt	Tsa-La-Gi Apartments	Cherokee Trails Golf Club	Landfill Closure	Ranch Operations	EDTA	Childhood Development Center	Title VI Enterprises	Other Enterprises	Total
2010	\$ 29,841	\$ 206,013	\$ 54,085	\$37,932	\$ 75,600	\$ -	\$ 1,309	\$ 387	\$ -	\$ 128	\$ -	\$ 47	\$ -	\$ 469	\$ -	\$ 405,811
2009	29,323	179,806	46,200	36,231	72,334	-	1,525	393	-	-	-	73	-	826	-	366,711
2008	24,639	103,177	40,365	37,003	51,693	15,033	1,503	394	-	2,292	-	373	-	1,458	-	277,930
2007	21,624	92,163	39,096	28,962	49,131	15,650	3,044	388	-	2,853	-	139	-	-	18	253,068
2006	16,433	87,061	36,588	27,307	42,867	12,712	1,975	390	-	1,794	-	182	-	-	7	227,316
2005	17,023	79,344	33,429	24,824	35,060	10,623	1,651	352	-	2,252	-	1,115	1,048	-	15	206,736
2004	13,627	74,995	32,901	24,160	35,163	11,193	970	356	39	1,917	6	-	1,235	-	-	196,562
2003	12,075	67,356	32,423	24,671	51,252	8,750	689	359	192	1,982	52	-	1,358	-	1	201,160
2002	9,373	62,235	29,120	25,203	45,478	5,431	235	418	170	1,459	169	-	1,091	-	3	180,385
2001	15,960	45,889	8,131	25,001	-	53,134	299	407	153	795	199	-	884	-	2	150,854

2002 through 2010 expenses are not comparable to 2001 due to the adoption of GASB 34.

## 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				
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
2008	28,460	2,564	1,821	26,403	-	-	59,248	1.75%	\$ 513
2007	30,000	29,529	225	3,211	209	209	63,174	2.04%	\$ 572
2006	-	36,258	600	3,352	295	295	40,505	1.43%	\$ 383
2005	-	35,446	439	1,777	653	653	38,315	1.48%	\$ 372
2004	-	25,331	523	849	368	368	27,071	1.12%	\$ 267
2003	-	16,284	-	1,017	458	458	17,759	0.79%	\$ 178
2002	-	3,514	-	902	298	298	4,714	0.21%	\$ 47
2001	-	3,547	-	995	411	411	4,953	0.22%	\$ 48

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

2002 through 2010 revenues are not comparable to 2001 due to the adoption of GASB 34.

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

**CHEROKEE NATION**

**PLEDGED-REVENUE COVERAGE  
LAST FOUR FISCAL YEARS (Dollars in Thousands)**

Fiscal Year	Health Revenue Bonds						
	Beginning Fund Balance	Operating Revenues	Less: Operating Expenses	Ending Fund Balance	Debt Service		Coverage
					Principal	Interest	
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
2008	5,189	90,045	81,220	14,014	1,540	1,279	4.97
2007	7,697	74,750	77,258	5,189	-	582	8.92

Note: \* Debt service coverage is based upon fund balance generated from Health Care System Operations.

\*\* Bonds were not issued in Prior Fiscal Years, therefore, coverage can only be reported on years after bond issuance.

# 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>
2010 *	1,155,961	\$ 3,755,250	\$ 31,745	6.9
2009 *	1,144,628	3,572,586	30,524	6.9
2008 *	1,134,098	3,392,628	29,350	3.8
2007	1,122,869	3,097,833	28,034	4.3
2006	1,108,570	2,829,313	26,782	4.3
2005	1,094,425	2,584,685	25,116	4.5
2004	1,088,279	2,422,702	23,898	4.8
2003	1,086,370	2,235,993	22,385	5.6
2002	1,082,197	2,216,549	22,184	4.9
2001	1,074,339	2,255,719	22,059	4.0

Source: Oklahoma State Data Center - Oklahoma Department of Commerce  
County Intercensal Population Estimates: 1990-2007  
US Department of Labor: Bureau of Labor Statistics Data

Notes:

- \* Estimate projected based on previous trends by Cherokee Nation Financial Resources Group
- \*\* Population data for Counties within the Cherokee Nation Jurisdictional Boundaries
- \*\*\* Personal Income information
- \*\*\*\* Per each one Income information from Oklahoma State Data Center - OK Dept of Commerce
- \*\*\*\*\* Unemployment Rate September period rate from the Bureau of Labor Statistics Data

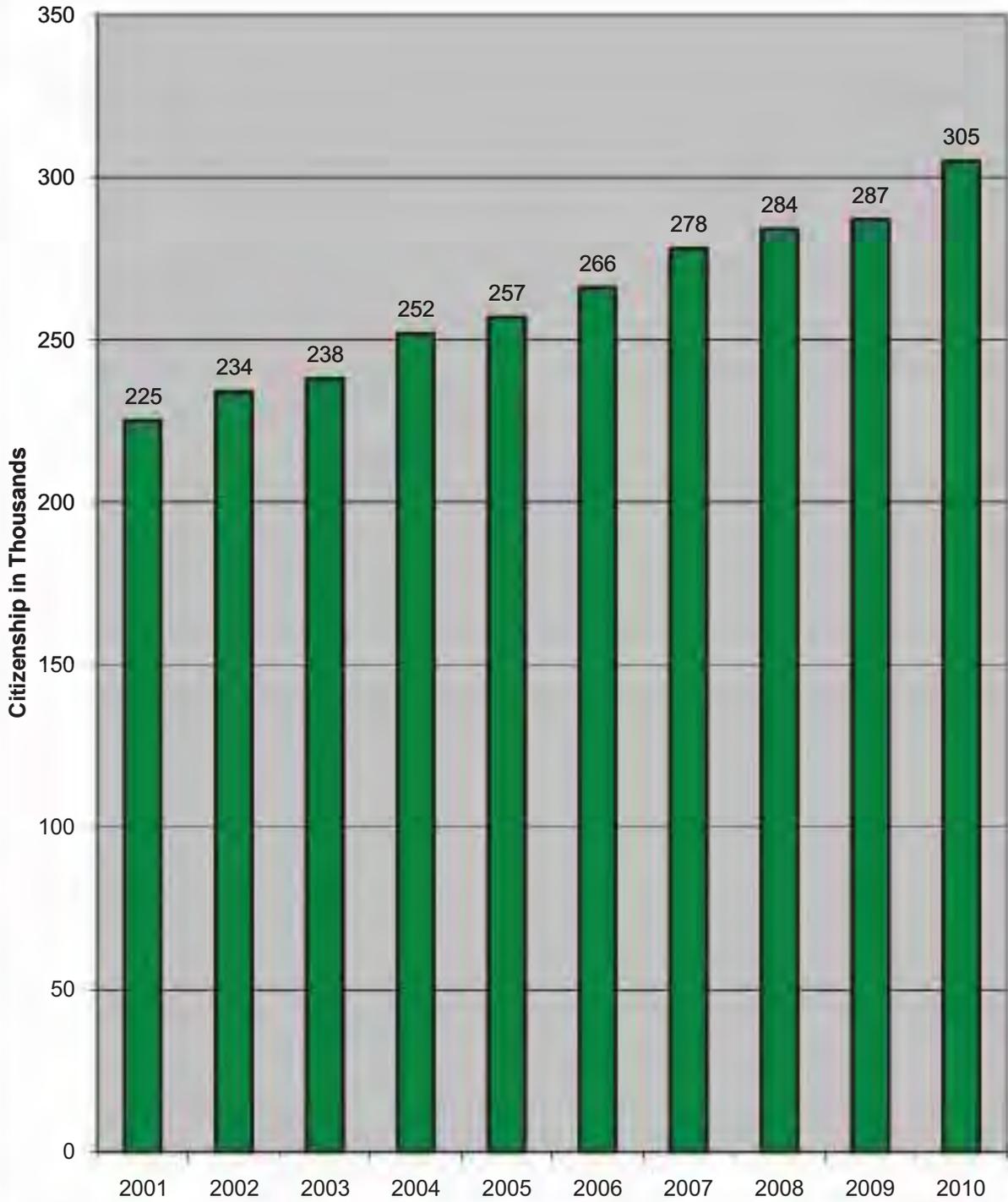
**CHEROKEE NATION**

**PRINCIPAL EMPLOYERS  
CURRENT AND PAST YEAR**

Employer	2009			2010		
	Employees	Rank	Percentage of Total Employment	Employees	Rank	Percentage of Total Employment
American Airlines & AA	7,000	2	11.94%	7,000	2	11.89%
Cherokee Nation	5,900	3	10.06%	6,250	3	10.61%
Claremore City Schools	600	8	1.02%	750	7	1.27%
Conoco Phillips	3,750	4	6.39%	4,375	4	7.43%
Labinal Inc	600	9	1.02%	500	10	0.85%
NORDAM Group Inc	1,900	5	3.24%	1,437	5	2.44%
Northeastern Oklahoma State University	1,600	6	2.73%	1,250	6	2.12%
State of Oklahoma	36,000	1	61.38%	36,000	1	61.13%
Tahlequah School District	600	10	1.02%	625	9	1.06%
Verizon (formerly MCI)	700	7	1.19%	700	8	1.19%
	<u>58,650</u>		<u>100%</u>	<u>58,887</u>		<u>100%</u>

Source: Oklahoma Department of Commerce

**CHEROKEE NATION**  
**Tribal Citizenship Growth**



Source: Tribal Registration Department

## CHEROKEE NATION

### TRIBAL CITIZENSHIP BY DISTRICT LAST TEN FISCAL YEARS

District	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Cherokee	13,442	13,909	14,610	15,218	15,706	16,116	16,759	17,242	17,603	18,688
Craig	5,802	5,933	6,140	6,434	6,626	6,868	6,998	7,086	7,137	7,427
Delaware	10,992	11,311	11,693	12,189	12,565	12,879	13,117	10,098	10,317	10,946
Keeler	10,533	10,907	11,446	12,074	12,479	13,158	13,527	13,834	13,991	14,666
Mayes	8,815	9,091	9,575	10,025	10,360	10,605	10,922	11,113	11,231	11,843
Sequoyah	10,784	11,095	11,525	11,986	12,274	12,591	12,868	13,088	13,247	13,769
Three Rivers	12,534	12,962	13,577	14,142	14,510	15,021	15,336	15,564	15,710	16,478
Trail of Tears	9,521	9,795	10,294	10,737	11,083	11,376	11,666	12,054	12,286	12,877
Will Rogers	8,741	8,993	9,350	9,868	10,259	10,666	11,009	8,105	8,396	9,270
Other	134,123	139,688	139,950	149,016	150,681	157,181	166,089	176,229	178,051	189,011
<b>Total Citizenship</b>	<b>225,287</b>	<b>233,684</b>	<b>238,160</b>	<b>251,689</b>	<b>256,543</b>	<b>266,461</b>	<b>278,291</b>	<b>284,413</b>	<b>287,969</b>	<b>304,975</b>

Source: Tribal Registration Department

# CHEROKEE NATION

## TRIBAL LAND BASE (ACRES) BY COUNTY AS OF SEPTEMBER 30, 2010

County	Tribal Land	Government Land	Restricted Individual	Total Acres
<u>Cherokee Nation:</u>				
Oklahoma:				
Adair	14,538	19	10,411	24,968
Cherokee	1,612	325	9,439	11,376
Craig	327	-	1,843	2,170
Delaware	24,325	10	6,503	30,838
McIntosh	-	-	596	596
Mayer	373	10	5,364	5,747
Muskogee	500	-	2,342	2,842
Nowata	33	-	610	643
Ottawa	-	-	79	79
Rogers	536	10	801	1,347
Sequoyah	2,896	46	5,623	8,565
Tulsa	47	-	204	251
Wagoner	-	-	225	225
Washington	-	-	1,719	1,719
Arkansas Riverbed	14,715	-	-	14,715
<u>Counties Outside Territorial Boundaries:</u>				
Oklahoma:				
Kay	4,230	-	-	4,230
Atoka	10	-	-	10
Choctaw	40	-	-	40
Pittsburg	10	-	-	10
Stephens	80	-	-	80
Texas:				
Red River	630	-	-	630
Dallas	5	-	-	5
Total	<u>64,907</u>	<u>419</u>	<u>45,759</u>	<u>111,085</u>

Source: Cherokee Nation Land Department

## CHEROKEE NATION

### PRIMARY GOVERNMENT EMPLOYEES BY FUNCTION

#### LAST TEN FISCAL YEARS

Regular full-time employees only

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
<b>Function:</b>										
Tribal Government	211	246	277	232	230	230	238	259	528	466
Health Services	484	572	579	629	627	639	640	726	924	1,039
Education Services	266	316	344	393	399	391	387	408	427	474
Human Services	170	206	222	234	251	249	276	291	304	313
Community Services	218	191	120	128	127	182	163	329	362	441
Other Tribal Services	158	178	195	213	236	226	243	241	-	-
<b>Total</b>	<u>1,507</u>	<u>1,709</u>	<u>1,737</u>	<u>1,829</u>	<u>1,870</u>	<u>1,917</u>	<u>1,947</u>	<u>2,254</u>	<u>2,545</u>	<u>2,733</u>

Source: Financial Resources

## CHEROKEE NATION

### OPERATING INDICATORS BY FUNCTION LAST EIGHT FISCAL YEARS

Function/Program	2003	2004	2005	2006	2007	2008	2009	2010
<b>Health Services</b>								
Primary provider visits*	122,570	109,379	117,270	121,650	119,358	124,824	268,238	301,824
Dental patient visits	24,519	25,482	22,199	21,436	23,050	21,543	37,786	43,914
Behavioral health patient visits	8,424	10,148	9,895	9,969	10,322	11,284	16,222	8,969
Optometry patient visits	12,802	13,700	13,472	14,259	14,548	15,808	23,031	17,781
Pharmacy patient visits	54,585	61,225	69,151	70,937	74,976	79,487	119,075	247,299
Other visits**	56,451	72,775	77,307	80,133	76,259	71,820	124,490	122,922
Pharmacy prescription filled	386,420	410,909	461,409	474,299	500,675	501,601	672,905	1,086,505
Number of new charts	8,139	8,407	7,166	7,074	6,659	7,615	11,605	10,103
Total number of charts	130,049	139,066	149,861	159,128	168,467	179,416	342,148 ***	356,142
*Primary provider visits include physician, physician's assistant, nurse practitioner								
** Other visits include: PHN, WIC, education, dietary, laboratory services								
*** 2009 included CN WW Hastings Hospital acquisition								
<b>Education Services</b>								
Higher Education applications received	2,140	2,376	2,708	2,569	2,193	2,304	2,512	2,980
Higher Education applications funded	1,900	2,085	2,236	2,164	2,095	2,108	2,141	2,768
Head Start students	270	260	284	317	838	355	328	384
Immersion Class students	-	-	-	25	42	30	49	47
Sequoyah High School students	360	372	382	400	381	383	394	395
<b>Human Services</b>								
Child Care children served through subsidy	3,869	3,742	3,606	3,708	3,649	3,854	4,537	3,333
Child Care contracted providers	1,019	1,075	994	915	801	729	636	725
Child Care technical assistance calls and visits	5,803	3,083	1,397	1,358	2,178	3,053	5,614	3,961
Child Care monitoring visits to caregivers	1,145	1,092	1,122	1,236	1,124	1,124	957	1,031
Food Distribution - individuals served	140,150	139,588	131,970	111,139	105,768	114,305	130,253	121,788
Food Distribution - households served	51,327	52,768	50,892	44,863	43,237	46,049	51,716	49,640
Tribal Work Experience program participants	219	308	313	192	13	-	-	-
Elder Service Advocacy individuals served	1,170	1,236	1,192	1,353	1,431	1,064	642	640
<b>Community Services</b>								
Roads/bridges project miles completed	64.20	97.24	96.01	101.72	66.12	128.7	58.22	133.15
Families served through rental assistance	n/a	n/a	2,121	3,695	2,927	2,578	1,546	1,549
Families subsidized in Title VI units	n/a	n/a	317	345	-	305	295	274
Rehabilitation of privately owned homes	n/a	n/a	89	119	305	565	209	315
Acquired or constructed individual homes for low-income families	n/a	n/a	34	31	1	13	12	14
Businesses funded through Commerce programs	n/a	n/a	4	6	7	12	21	28
Participants enrollments in IDA/YIDA	n/a	n/a	30	28	42	24	30	104

Source: Departments/programs as listed

Note: Operating indicators are not available for years prior to 2003

**CHEROKEE NATION**

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

	2003	2004	2005	2006	2007	2008	2009	2010
<b>Governmental activities:</b>								
Tribal Government	\$ 2,232	\$ 3,068	\$ 2,520	\$ 2,969	\$ 2,424	\$ 3,013	\$ 41,269	\$ 40,956
Health Services	1,911	1,847	2,197	12,883 *	33,898	41,238	45,261	46,134
Education Services	619	578	1,098	8,246 *	8,885	9,479	9,622	9,968
Human Services	534	436	328	242	396	571	902	1,173
Community Services	834	842	1,035	1,384	2,189	3,264	2,715	3,336
Other Tribal Services	25,564	27,984	33,620	30,719	32,502	37,251	-	-
Governmental activities, net	<u>\$ 31,694</u>	<u>\$ 34,755</u>	<u>\$ 40,798</u>	<u>\$ 56,443</u>	<u>\$ 80,294</u>	<u>\$ 94,816</u>	<u>\$ 99,769</u>	<u>\$ 101,567</u>
<b>Business -type activities:</b>								
Enterprise Funds	\$ 6,314	\$ 5,605	\$ 6,851	\$ 6,761	\$ 900 *	\$ 599	\$ 548	\$ 648
Business-type activities, net	<u>\$ 6,314</u>	<u>\$ 5,605</u>	<u>\$ 6,851</u>	<u>\$ 6,761</u>	<u>\$ 900</u>	<u>\$ 599</u>	<u>\$ 548</u>	<u>\$ 648</u>

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

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

Note: Information prior to FY 2003 is not available for comparison.

**CHEROKEE NATION**

**CHEROKEE STUDENTS BY DISTRICT  
LAST NINE FISCAL YEARS\***

<b>District</b>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
Cherokee	3,847	3,814	3,976	4,071	4,097	4,079	4,357	4,421	4,622
Craig	1,089	1,211	1,257	1,334	1,342	1,296	1,334	1,361	1,378
Delaware	2,281	2,218	2,236	2,205	2,311	2,315	2,302	2,310	2,336
Keeler	1,330	1,483	1,618	1,882	1,862	1,785	1,801	1,916	1,871
Mayes	1,685	1,758	1,906	1,896	2,020	2,062	2,152	2,126	2,199
Sequoyah	1,939	2,022	2,053	2,033	2,067	2,031	2,124	2,101	2,109
Three Rivers	1,999	2,152	2,225	2,318	2,468	2,569	2,680	2,713	2,851
Trail of Tears	1,953	1,992	2,073	2,108	2,151	2,261	2,260	2,403	2,504
Will Rogers	1,795	2,030	2,177	2,351	2,368	2,324	2,246	2,303	2,598
<b>Total Cherokee Students</b>	<u>17,918</u>	<u>18,680</u>	<u>19,521</u>	<u>20,198</u>	<u>20,686</u>	<u>20,722</u>	<u>21,256</u>	<u>21,654</u>	<u>22,468</u>

\* MVT apportionments began in FY 2002, so only able to show data from FY 2002 to present. 10 Years worth of data is not available at this time.

Source: MVT apportionment

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