

RESOLUTION OF THE  
NAVAJO NATION COUNCIL

23rd NAVAJO NATION COUNCIL - First Year, 2015

AN ACTION

RELATING TO BUDGET AND FINANCE AND NAABIK'ÍYÁTI' COMMITTEES AND  
NAVAJO NATION COUNCIL; ACCEPTING THE AUDIT REPORT OF KPMG LLP ON  
THE PRIMARY GOVERNMENT FINANCIAL STATEMENT OF THE NAVAJO NATION  
FOR FISCAL YEAR 2014

BE IT ENACTED:

SECTION ONE. Findings

- A. Pursuant to 12 N.N.C. § 840 (B), prior to Navajo Nation Council deliberation of the proposed comprehensive budget, the latest external audit of the combined financial statements of the Navajo Nation will be presented to the Navajo Nation Council by external auditors.
- B. Pursuant to 2 N.N.C. § 164 (A)(9), a proposed resolution that requires final action by the Navajo Nation Council shall be assigned to the Naabik'íyáti' Committee before it is heard by the Navajo Nation Council.
- C. Pursuant to 2 N.N.C. § 301(B)(10) the Budget and Finance Committee has the power to receive an annual audit of the accounts of the Navajo Nation by certified public accountants and to present such audit to the Navajo Nation Council.
- D. KPMG, LLP, an independent auditor has prepared the 2014 annual audit for the Navajo Nation.
- E. The Navajo Nation finds it in the best interest of the Navajo Nation to accept the 2014 annual audit.

SECTION TWO. Approval

- A. The Navajo Nation hereby accepts the audit report of KPMG, LLP, on the Primary Government Financial Statement of the Navajo Nation for Fiscal Year 2014, attached as Exhibit A.

## CERTIFICATION

I hereby certify that the foregoing resolution was duly considered by the Navajo Nation Council at a duly called meeting in Window Rock, Navajo Nation (Arizona) at which a quorum was present and that the same was passed by a vote of 14 in favor and 4 opposed this 2<sup>nd</sup> day of September 2015.

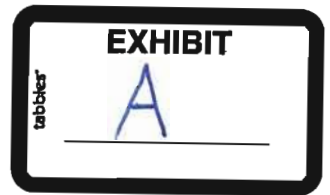


LoRenzo Bates, Speaker  
Navajo Nation Council

9-8-15

\_\_\_\_\_  
Date

Motion: Honorable Davis Filfred  
Second: Honorable Walter Phelps



Basic Financial Statements - September 30, 2014

# Navajo Nation



# THE NAVAJO NATION

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## THE NAVAJO NATION

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**KPMG LLP**  
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6565 Americas Parkway, N.E.  
Albuquerque, NM 87110-8179

## **Independent Auditors' Report**

The Navajo Nation Council  
The Navajo Nation:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Navajo Nation (the Nation), as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the basic financial statements of the Nation's primary government as listed in the table of contents.

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

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

### ***Auditors' Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. 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 from material misstatement.

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





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

<b>Opinion unit</b>	<b>Type of opinion</b>
Governmental Activities	Unmodified
Business-Type Activities	Unmodified
Aggregate Discretely Presented Component Units	Adverse
General Fund	Unmodified
Grant Fund	Unmodified
Permanent Fund	Unmodified
Aggregate Remaining Fund Information	Unmodified

***Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units***

The financial statements do not include financial data for the Nation's legally separate component units. U.S. generally accepted accounting principles require the financial data for those component units to be reported with the financial data of the Nation's primary government unless the Nation also issues financial statements for the financial reporting entity that include the financial data for its component units. The Nation has not issued such reporting entity financial statements. The amount by which this departure would affect the assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses of the financial statements has not been determined.

***Adverse Opinion***

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the Nation, as of September 30, 2014, or the changes in financial position thereof for the year then ended in accordance with U.S. generally accepted accounting principles.

***Unmodified Opinions***

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Navajo Nation, as of September 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with the basis of accounting described in note 1 to the financial statements.

***Basis of Accounting***

As discussed in note 1 to the accompanying financial statements, the Nation prepares its financial statements on the modified accrual budget basis, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

***Emphasis of Matter***

***Adoption of New Accounting Pronouncements***

As discussed in note 1(m) to the financial statements, effective October 1, 2013, the Nation adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Reporting of Items Previously Recognized as Assets and Liabilities* and GASB Statement No. 67, *Financial Reporting for Pension Plans – An Amendment of GASB Statement No. 25*. Our opinions are not modified with respect to this matter.



### ***Other Matters***

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

U.S. generally accepted accounting principles require that the management's discussion and analysis and budgetary comparison information, the schedule of funding progress, the schedule of changes in the net position liability and related ratios, the schedule of the Navajo Nation's contributions, and the schedule of investment returns on pages 4-12, 64, 65, 66, 67, and 68 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nation's basic financial statements. The combining and individual nonmajor fund financial statements in Schedules 6 to 17 are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2015 on our consideration of the Nation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nation's internal control over financial reporting and compliance.

**KPMG LLP**

Albuquerque, New Mexico  
June 29, 2015



## **THE NAVAJO NATION**

### **Management's Discussion and Analysis (unaudited)**

September 30, 2014

#### **The Navajo Nation**

##### ***Management's Discussion and Analysis***

As management of the Navajo Nation (Nation), we offer readers of the Nation's financial statements this overview and analysis of the financial activities of the Nation for the fiscal years ended September 30, 2014 and 2013. This document is designed to:

- Help focus the reader on significant financial issues
- Provide an overview of the Nation's financial activity
- Identify changes in the Nation's ability to address the future year operational objectives
- Identify any material deviations from the approved budget
- Identify individual fund issues or concerns.

Since the Management's Discussion and Analysis is designed to focus on the current year's activities, resulting changes, and currently known facts, we encourage it to be considered in conjunction with the Nation's financial statements. The information in these Sections complements each other.

#### **Highlights**

##### ***Financial Highlights***

- The assets of the Nation exceeded its liabilities at the close of the most recent fiscal year by \$3,274,181,825 (net position).
- Expenses of the Nation's governmental activities were \$566,566,860 for the year, which included \$157,816,499 for health and welfare, \$81,051,778 for education and training, \$97,996,614 for general government, and \$94,032,077 for community and rural development.
- As of the close of the current fiscal year, the Nation's governmental funds reported combined ending fund balance of \$2,831,806,047.
- At September 30, 2014, the Unassigned Fund Balance for the General Fund was \$624,679,085.
- The Nation has a significant amount of investments in the stock and bond market managed by external investment management firms. For fiscal years 2014 and 2013, the Nation's governmental funds experienced a \$129.1 million and \$161.1 million increase in fair value, respectively. In addition, the fiduciary funds experienced a \$67.1 million and \$73.6 million increase in fair value, respectively.
- The Nation receives a significant portion of operating revenues from oil and gas royalty payments and coal royalty payments, \$116.7 million in fiscal year 2014 and \$122.6 million in fiscal year 2013.

##### ***Overview of the Financial Statements***

With the implementation of Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB Statement 34), a government's presentation of financial statements is significantly changed. The Nation's basic financial statements have three components: government-wide financial statements, fund financial

## **THE NAVAJO NATION**

### **Management's Discussion and Analysis (unaudited)**

September 30, 2014

statements, and notes to the financial statements. This report also contains supplementary information presented just after the financial statement section.

#### **Government-Wide Financial Statements**

The government-wide financial statements are designed to resemble those of private sector entities in that all governmental and business-type activities are consolidated into columns, which add to a total for the primary government.

The statement of net position is designed to provide asset and liability information with the difference between the two presented as net position. This statement consolidates governmental fund's current financial resources (short-term, spendable resources) with capital assets and long-term obligations.

The statement of activities is focused on both the gross and net cost of various functions (including governmental and business type) that are supported by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of the cost of various governmental services and/or subsidy to various business-type activities.

The governmental activities reflect the Nation's basic services, including public safety, education, health, management of natural resources, as well as certain other activities such as economic development, community development, chapter projects, transportation, and cultural and recreational activities and employee benefits. Natural resource revenue and taxes finance the majority of these services. The business-type activities reflect private sector type operations (business industrial development fund, loan fund, employee housing, archaeology services, parks and recreation, and fish and wildlife), where the fee for services typically covers all or most of the cost of operation, including depreciation.

#### **Fund Financial Statements**

A fund is a grouping of related accounts used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is based upon compliance with finance-related legal requirements underlying each fund. All of the funds of the Nation can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

#### **Governmental Funds**

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on short-term sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's current financing requirements.

Because the focus of 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, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental fund statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

## THE NAVAJO NATION

### Management's Discussion and Analysis (unaudited)

September 30, 2014

The Nation maintains 16 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, grant, and permanent fund, all of which are considered to be major funds. The General Fund includes information from eight separate funds, which have been combined in accordance with the requirements of GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Data from the other 13 funds are combined into a single column titled other governmental funds. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining financial statements. These combining financial statements follow the basic financial statements in this report.

#### ***Proprietary Funds***

The Nation maintains two types of proprietary funds: enterprise and internal service. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Nation uses enterprise funds to account for activities such as its business industrial development fund, loan fund, employee housing, archaeology services, and parks and recreation operations. Internal service funds are an accounting device used to accumulate and allocate costs internally among the Nation's various functions. The Nation uses its internal services funds to account for activities such as its fleet management, duplicating services, group health self-insurance fund, office supply center, air transportation, property and casualty self-insurance fund, workers' compensation insurance fund, and contingency management fund. As these internal services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in greater detail. The enterprise funds and internal service funds are combined into aggregated columns on the proprietary funds financial statements, as no enterprise or internal service funds are identified as major. Individual fund data for the enterprise and internal services funds are provided in the form of combining statements that follow the basic financial statements in this report.

While the total column on the business-type fund financial statements for enterprise funds is the same as the business-type column at the government-wide financial statements, the governmental major funds total column requires a reconciliation because of the different measurement focus. The flow of current financial resources will reflect interfund transfers as other financial sources as well as capital expenditures and principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations into the governmental activities column in the government-wide statements.

#### ***Fiduciary Funds***

Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Nation's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

#### **Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**THE NAVAJO NATION**  
Management's Discussion and Analysis (unaudited)  
September 30, 2014

**Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information regarding the Nation's budgetary results. Required supplementary information can be found following the basic financial statements in this report.

The combining statements referred to earlier in connection with nonmajor governmental funds, proprietary funds, and fiduciary funds are presented immediately following the budgetary comparison required supplementary information.

***Government-Wide Financial Analysis***

As noted earlier, net position may serve over time as a useful indicator of the government's financial position. In the case of the Nation, assets exceeded liabilities by \$3,274,181,825 at September 30, 2014 as compared to \$2,516,421,667 at September 30, 2013.

The largest portion of the Nation's assets is cash and investments, which are managed by the Nation and managers selected by the Nation. With the exception of the permanent fund, the Nation uses the return on these investments to provide service to citizens. Earnings on the permanent fund investments became available to support operations of the Nation's government starting October 1, 2005. The Navajo Nation Council will need to approve an expenditure plan for use of 95% of the permanent fund income (interest and dividends) before it can be spent.

Restricted net position represents those operating funds on which external restrictions or restrictions imposed by law have been imposed that limit the purposes for which such funds can be used. The permanent funds' nonexpendable net position of \$1,768,231,044 and \$1,564,088,641 represent 97% and 94% of all nonexpendable net position as of September 30, 2014 and 2013, respectively.

**The Nation's Net Position**

	Governmental activities			Business-type activities		
	2014	2013	Change	2014	2013	Change
	(In thousands)					
Current and other assets	\$ 3,239,669	2,449,546	790,123	52,864	42,733	10,131
Capital assets	434,278	409,832	24,446	13,269	13,508	(239)
Total assets	3,673,947	2,859,378	814,569	66,133	56,241	9,892
Long-term liabilities	125,994	123,582	2,412	250	174	76
Other liabilities	339,127	274,886	64,241	527	555	(28)
Total liabilities	465,121	398,468	66,653	777	729	48
Net position:						
Net investment in capital assets	379,152	376,995	2,157	13,269	13,508	(239)
Restricted	1,989,296	1,811,028	178,268	—	—	—
Unrestricted	840,378	272,886	567,492	52,087	42,004	10,083
Total net position	\$ 3,208,826	2,460,909	747,917	65,356	55,512	9,844

**THE NAVAJO NATION**  
Management's Discussion and Analysis (unaudited)  
September 30, 2014

**Analysis of the Nation's Operations**

The following table provides a summary of the Nation's operations for the years ended September 30, 2014 and 2013. Governmental activities increased the Nation's net position by \$747,916,409 in 2014 compared to an increase of \$315,058,231 in 2013. The 2014 increase is largely due to \$178,915,392 in investment income, \$100,395,087 in tax revenue, and the \$554,000,000 claims settlement. The 2013 increase is largely due to \$204,234,000 in investment income and a \$101,656,000 in tax revenue. The permanent fund accounted for \$117,920,409 of the increase in the fair value of investments in 2014 and \$154,908,700 of the increase in the fair value of investments in 2013.

Royalties from the sales of oil and gas and sale of coal comprise the majority of program revenues – charges for services. During 2014, the oil and gas prices stabilized to comparable prices noted in 2013 resulting in a modest increase in revenues. In fiscal year 2014, the General Fund budget was set to a conservative level so that the Nation could manage adjustments in market conditions and try to control expenditures. This measure also captured excess revenues to generate a positive balance in the Unassigned Fund Balance of the General Fund.

The Nation averaged \$335 million of external funding through grants and contracts for each of the past two years. The largest portion of that funding is for health and welfare activities. The Nation received \$326 million of external funding in 2014 compared to \$343 million of external funding in 2013, which is a decrease of approximately \$17 million.

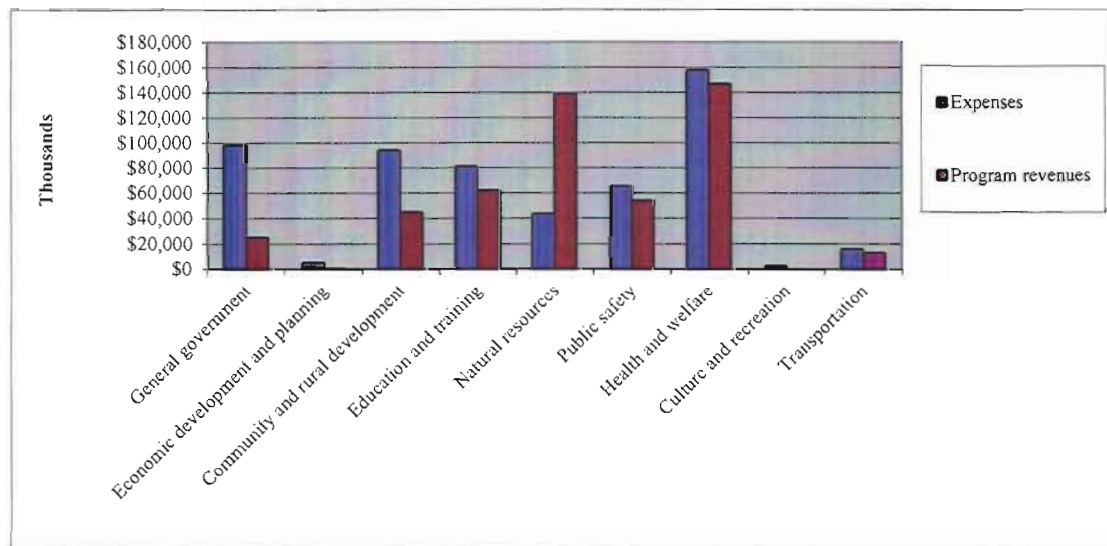
The Nation's Changes in Net Position						
	Governmental activities			Business-type activities		
	2014	2013	Change	2014	2013	Change
	(In thousands)					
Revenues:						
Program revenues:						
Charges for services	\$ 159,899	170,260	(10,361)	15,404	11,845	3,559
Operating grants and contributions	302,235	311,210	(8,975)	—	—	—
Capital grants and contributions	23,432	31,566	(8,134)	—	—	—
General revenues:						
Taxes:						
Business activity	6,160	8,142	(1,982)	—	—	—
Possessory interest	35,217	37,865	(2,648)	—	—	—
Other	59,019	55,649	3,370	—	—	—
Investment income	178,915	204,234	(25,319)	9	13	(4)
Land, buildings, business site, and right-of-way lease	62,347	64,328	(1,981)	—	—	—
Total revenues	827,224	883,254	(56,030)	15,413	11,858	3,555
Expenses:						
General government	97,997	118,662	(20,665)	—	—	—
Economic development and planning	4,961	6,771	(1,810)	—	—	—
Community and rural development	94,032	70,747	23,285	—	—	—
Education and training	81,052	84,326	(3,274)	—	—	—
Natural resources	43,631	46,164	(2,533)	—	—	—
Public safety	65,476	65,956	(480)	—	—	—
Health and welfare	157,816	152,649	5,167	—	—	—
Culture and recreation	2,532	2,635	(103)	—	—	—
Transportation	16,140	14,504	1,636	—	—	—
Interest on long-term debt	2,929	3,016	(87)	—	—	—

**THE NAVAJO NATION**  
Management's Discussion and Analysis (unaudited)  
September 30, 2014

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

	Governmental activities			Business-type activities		
	2014	2013	Change	2014	2013	Change
	(In thousands)					
Business Industrial Development Fund	\$ —	\$ —	\$ —	795	504	291
Credit services	—	—	—	1,170	816	354
Navajo Nation housing	—	—	—	801	1,083	(282)
Archaeology services	—	—	—	576	689	(113)
Parks and recreation	—	—	—	3,875	3,196	679
Fish and wildlife	—	—	—	641	659	(18)
Navajo Nation Code	—	—	—	—	1	(1)
Navajo transit	—	—	—	24	121	(97)
Livestock custody	—	—	—	60	37	23
Fourth of July	—	—	—	276	361	(85)
Annual Navajo Nation Fair	—	—	—	1,294	1,379	(85)
Tribal ranch	—	—	—	699	1,062	(363)
<b>Total expenses</b>	<b>566,566</b>	<b>565,430</b>	<b>1,136</b>	<b>10,211</b>	<b>9,908</b>	<b>303</b>
Increase (decrease) in net assets before transfers and extraordinary item claims settlement	260,658	317,824	(57,166)	5,202	1,950	3,252
Transfers	(3,784)	(2,766)	(1,018)	4,642	2,766	1,876
Extraordinary item – claims settlement	554,000	—	554,000	—	—	—
Extraordinary item – fees associated with claims settlement	(62,957)	—	(62,957)	—	—	—
<b>Change in net position</b>	<b>747,917</b>	<b>315,058</b>	<b>432,859</b>	<b>9,844</b>	<b>4,716</b>	<b>5,128</b>
Net position, beginning of year	2,460,909	2,145,851	315,058	55,512	50,796	4,716
Net position, end of year	<u>\$ 3,208,826</u>	<u>2,460,909</u>	<u>747,917</u>	<u>65,356</u>	<u>55,512</u>	<u>9,844</u>

**2014 Expenses and Program Revenues – Governmental Activities**





## THE NAVAJO NATION

### Management's Discussion and Analysis (unaudited)

September 30, 2014

#### Financial Analysis of the Government's Funds

##### *Governmental Funds*

The focus of the Nation's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Nation's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

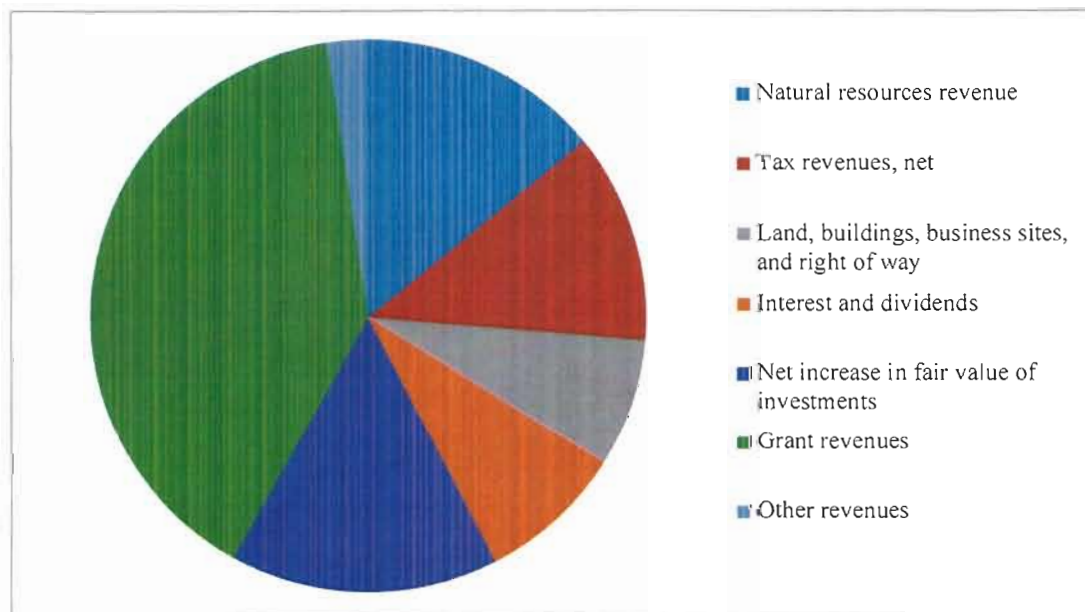
At the end of the current fiscal year, the Nation's governmental funds reported combined ending fund balance of \$2,831,806,047. Approximately, 78% of this total amount is reserved to indicate that it is not available for new spending because it is nonspendable, restricted, committed, and/or assigned.

The General Fund's revenues exceeded expenditures by \$2,305,804 during 2014.

At September 30, 2014, the Grant Fund recorded unearned revenue of \$226,215,066. This amount represents advances on federal grants, primarily through the Bureau of Indian Affairs and Indian Health Services that have not been spent for their intended purpose in accordance with the grant document. These advances are restricted and the Nation expects to fully utilize the funds in accordance with the original award.

The Permanent Fund balance increased \$204,142,403 during the year ended September 30, 2014. The fund has a net increase in fair value of investments of \$117,920,409 and interest and dividends of \$57,877,165. In addition, statutory deposits revenues of \$35,083,919 were added to the fund this year.

#### 2014 Revenue by Source – Governmental Funds



## THE NAVAJO NATION

### Management's Discussion and Analysis (unaudited)

September 30, 2014

#### Proprietary Funds

The Nation's proprietary fund statements provide the same type of information found in the government-wide financial statements but in more detail. For the year ended September 30, 2014, enterprise fund net position increased \$9,843,749 and internal service fund net position decreased \$4,036,501.

#### General Fund Budgetary Highlights

- The Nation approved appropriations for fiscal year 2014 expenditures of \$261,309,054. This amount included an initial operating budget of \$206,737,833 and supplemental appropriations approved during the year for various purposes of \$54,571,221.
- Total net revenues of \$213,900,408 exceeded the original projection of \$181,429,000 by \$32,471,108.
- On a budgetary basis, revenues exceeded expenditures by approximately \$3.6 million before transfers and extraordinary items.

#### Capital Assets

The Nation's investment in capital assets for its governmental and business-type activities as of September 30, 2014 amounts to \$447,546,794 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure, and construction in progress.

- The construction in progress of \$8,768,691 decreased from the prior year balance of \$40,009,917, which was attributable to the completion of three large judicial public safety buildings across the Nation.

#### Capital Assets at Year-End

	Governmental activities		Business-type activities	
	2014	2013	2014	2013
Land and land development	\$ 89,373	89,373	739	739
Buildings and improvements	374,842	310,239	20,135	20,084
Vehicles	105,416	100,988	—	—
Equipment	72,814	69,500	1,701	1,580
Furniture and fixtures	6,103	5,636	—	—
Construction in progress	8,769	40,010	—	—
Accumulated depreciation	(223,039)	(205,915)	(9,306)	(8,895)
Total	\$ 434,278	409,831	13,269	13,508

Additional information on the Nation's capital assets can be found in note 4.

## THE NAVAJO NATION

Management's Discussion and Analysis (unaudited)

September 30, 2014

### Debt Administration

At September 30, 2014, the Nation had the following debt:

#### Outstanding Debt at Year-End – Capital Leases and Notes Payable

	Governmental activities		Business-type activities	
	2014	2013	2014	2013
Notes payable	\$ 57,749	56,875	—	—
Total	\$ 57,749	56,875	—	—

Additional information on the Nation's long-term debt can be found in note 8.

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

- The Navajo Nation operating budget is based on estimated revenue projections. Through May 2015, the Nation's actual revenues were at 77% of projected 2015 revenues.
- Fluctuation in the market of oil and gas prices and coal prices will impact the Nation's overall revenues. For FY 2015, declining oil prices are expected to lead to a decrease in revenues.
- The Navajo Nation Permanent Fund income (95% of income) became available for appropriation starting October 1, 2005 subject to an approved five-year expenditure plan.
- The Navajo Nation has \$54 million in debt that is due in July 2015. The Nation is currently seeking a bond issuance to refinance the loan for a period of 15 years. The Nation currently has an A rating with Standard and Poor's.
- The Navajo Nation reached a settlement with the U.S. government totaling \$554 million in September 2014 from the mismanagement of trust assets. The Nation has established the Sihasin fund to account for the money received.

#### *Request for Information*

The Nation's financial report is designed to provide citizens, customers, investors, and creditors with a general overview of the Nation's finances. If you have questions about this report or need any additional information, contact the Office of the Controller, Attention: Robert Willie, Acting Controller, at:

P.O. Box 3150  
Window Rock, Arizona 86515  
928-871-6308  
rwillie@nnooc.org

## THE NAVAJO NATION

## Statement of Net Position

September 30, 2014

Assets	Primary government		
	Governmental activities	Business-type activities	Total
Cash and cash equivalents (note 2)	\$ 152,058,160	29,558,258	181,616,418
Investments (note 2)	204,210,032	6,908,129	211,118,161
Accounts, claims settlement, and notes receivable, net (note 3)	591,482,513	12,197,545	603,680,058
Accrued interest receivable	3,509,939	775	3,510,714
Prepaid expenses and other assets	282,125	4,199,577	4,481,702
Restricted assets:			
Cash and cash equivalents (note 2)	324,221,047	—	324,221,047
Investments (note 2)	1,737,805,520	—	1,737,805,520
Accounts and notes receivable, net (note 3)	208,107,490	—	208,107,490
Accrued interest receivable	16,287,900	—	16,287,900
Prepaid expenses and other assets	1,704,100	—	1,704,100
Capital assets (note 4):			
Land and construction in progress	98,141,952	739,419	98,881,371
Buildings and equipment, net of accumulated depreciation	336,135,794	12,529,629	348,665,423
Total capital assets	434,277,746	13,269,048	447,546,794
Total assets	\$ 3,673,946,572	66,133,332	3,740,079,904
<b>Liabilities</b>			
Accounts payable and accrued liabilities (note 7)	\$ 108,378,072	527,151	108,905,223
Unearned revenue	230,749,354	—	230,749,354
Long-term liabilities (note 8):			
Due within one year	81,401,527	130,374	81,531,901
Due in more than one year	44,591,752	119,849	44,711,601
Total long-term liabilities	125,993,279	250,223	126,243,502
Total liabilities	465,120,705	777,374	465,898,079
<b>Net Position</b>			
Net investment in capital assets	379,151,517	13,269,048	392,420,565
Expendable restricted assets:			
Restricted for community and rural development	63,080,015	—	63,080,015
Restricted for economic development and loans	9,245,400	—	9,245,400
Restricted for education	61,870,464	—	61,870,464
Restricted for claims and refunds	28,910,254	—	28,910,254
Nonexpendable restricted assets:			
Restricted for future government operations	1,768,231,044	—	1,768,231,044
Restricted for chapter activities	57,959,026	—	57,959,026
Unrestricted	840,378,147	52,086,910	892,465,057
Total net position	3,208,825,867	65,355,958	3,274,181,825
Total liabilities and net position	\$ 3,673,946,572	66,133,332	3,740,079,904

See accompanying notes to basic financial statements.

## THE NAVAJO NATION

## Statement of Activities

Year ended September 30, 2014

Functions/programs	Expenses	Program revenues		Net (expense) revenue and changes in net position		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities
<b>Governmental activities:</b>						
General government	\$ 97,696,614	13,045,412	12,111,835	5,475	(72,833,892)	(72,833,892)
Economic development and planning	4,961,228	280,380	65,112	—	(4,615,736)	(4,615,736)
Community and rural development	94,032,077	18,339,994	25,076,162	1,547,256	(49,068,665)	(49,068,665)
Education and training	81,051,778	6,062,183	54,877,748	1,047,667	(19,064,180)	(19,064,180)
Natural resources	43,631,098	120,261,532	18,124,362	675,771	95,430,567	95,430,567
Public safety	65,476,306	1,398,855	45,036,310	7,525,082	(11,516,059)	(11,516,059)
Health and welfare	157,816,499	278,669	137,869,152	8,527,121	(11,141,557)	(11,141,557)
Culture and recreation	2,531,732	140,006	32,453	—	(2,359,273)	(2,359,273)
Transportation	16,140,439	92,250	9,042,197	—	(2,902,659)	(2,902,659)
Interest on long-term debt	2,929,089	—	—	—	(2,929,089)	(2,929,089)
<b>Total governmental activities</b>	<b>566,566,860</b>	<b>159,869,281</b>	<b>302,235,331</b>	<b>23,431,705</b>	<b>(81,000,543)</b>	<b>(81,000,543)</b>
<b>Business-type activities</b>						
Business Industrial Development Fund	795,353	1,074,348	—	—	—	278,995
Credit services	1,169,798	1,154,822	—	—	(14,976)	(14,976)
Navajo Nation Housing	801,279	942,650	—	—	141,371	141,371
Archaeology services	575,979	161,698	—	—	(414,281)	(414,281)
Parks and recreation	3,874,714	8,687,582	—	—	4,812,868	4,812,868
Fish and wildlife	640,946	826,562	—	—	185,616	185,616
Navajo Nation Code	224	2,707	—	—	2,483	2,483
Navajo Transit Fund	24,398	3,281	—	—	(21,117)	(21,117)
Livestock Custody	60,154	161,850	—	—	101,696	101,696
Treaty Days Celebration Fund	275,944	149,969	—	—	(125,975)	(125,975)
Annual Navajo Nation Fair	1,293,565	1,017,206	—	—	(276,359)	(276,359)
Tribal Ranch	698,556	1,221,362	—	—	522,806	522,806
<b>Total business-type activities</b>	<b>10,210,910</b>	<b>15,404,037</b>	<b>—</b>	<b>—</b>	<b>5,193,127</b>	<b>5,193,127</b>
<b>General Revenue</b>	<b>\$ 576,777,770</b>	<b>175,303,318</b>	<b>302,235,331</b>	<b>23,431,705</b>	<b>(81,000,543)</b>	<b>(75,807,416)</b>
<b>Taxes (note 10)</b>						
Business activity						
Possessory interest					6,159,403	6,159,403
Fuel excise					35,216,375	35,216,375
Oil and gas severance					9,933,633	9,933,633
Sales					10,047,694	10,047,694
Tobacco products					36,772,178	36,772,178
Hotel occupancy					375,408	375,408
Unrestricted investment income					1,890,396	1,890,396
Land, buildings, business site, and right-of-way lease					178,924,599	178,924,599
Extraordinary item - Claims settlement					62,347,414	62,347,414
Extraordinary item - Fees associated with claims settlement					554,000,000	554,000,000
Transfers					(62,956,710)	(62,956,710)
<b>Total general revenues and transfers</b>					<b>(3,784,231)</b>	<b>857,184</b>
<b>Change in net position</b>					<b>4,641,415</b>	<b>833,567,574</b>
<b>Net position, beginning of year</b>					<b>9,843,749</b>	<b>757,760,158</b>
<b>Net position, end of year</b>					<b>55,512,209</b>	<b>2,516,421,667</b>
					<b>\$ 3,208,823,867</b>	<b>\$ 3,274,181,825</b>

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
Balance Sheet – Governmental Funds  
September 30, 2014

Assets	General Fund (Schedule 6)	Grant Fund	Permanent fund	Other governmental funds	Total governmental funds
Cash and cash equivalents (note 2)	\$ 86,485,085	226,215,066	76,349,389	58,238,161	447,287,701
Investments (including \$5,482,313 of pledged securities) (note 2)	74,829,698	—	1,538,291,873	289,439,815	1,902,561,386
Accounts receivable, net	2,020,563	163,831	95,730	56,082	2,336,206
Accrued interest receivable	645,044	—	14,465,533	4,620,708	19,731,285
Claims settlement receivable (note 3)	554,000,000	—	—	—	554,000,000
Note receivable (note 3)	3,364,842	—	141,447,717	48,137,297	192,949,856
Receivable from grantors	—	48,686,436	—	—	48,686,436
Due from other funds (note 6)	34,058,262	—	—	—	34,058,262
Restricted assets	517,838	1,186,262	—	—	1,704,100
Total assets	<u>\$ 755,921,332</u>	<u>276,251,595</u>	<u>1,770,650,242</u>	<u>400,492,063</u>	<u>3,203,315,232</u>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable (note 7)	\$ 69,964,196	8,290,669	2,411,686	4,544,206	85,210,757
Accrued liabilities (note 7)	13,795,702	7,687,598	7,512	—	21,490,812
Due to other funds (note 6)	—	34,058,262	—	—	34,058,262
Unearned revenue	4,534,288	226,215,066	—	—	230,749,354
Total liabilities	<u>88,294,186</u>	<u>276,251,595</u>	<u>2,419,198</u>	<u>4,544,206</u>	<u>371,509,185</u>
Fund balances:					
Nonspendable:					
Permanent fund principal	—	—	1,626,783,327	57,959,026	1,684,742,353
NINGE long-term receivable	3,364,842	—	141,447,717	48,137,297	192,949,856
Spendable:					
Restricted for:					
Restricted assets	517,838	—	—	—	517,838
Economic development loans	8,649,491	—	—	—	8,649,491
Education	—	—	—	56,988,005	56,988,005
Special projects	—	—	—	3,693,216	3,693,216
Other capital projects	3,353,277	—	—	31,910,478	35,263,755
Committed for:					
Other capital projects	11,879,841	—	—	131,798,350	143,678,191
Other purposes	3,566,039	—	—	65,461,485	69,027,524
Assigned to:					
Other purposes	11,616,733	—	—	—	11,616,733
Unassigned:					
General fund	624,679,085	—	—	—	624,679,085
Total fund balances	<u>667,627,146</u>	<u>—</u>	<u>1,768,231,044</u>	<u>395,947,857</u>	<u>2,831,806,047</u>
Total liabilities and fund balances	<u>\$ 755,921,332</u>	<u>276,251,595</u>	<u>1,770,650,242</u>	<u>400,492,063</u>	
Amounts reported for governmental activities in the statement of net position are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds					
					426,213,193
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net position (Exhibit F)					
					57,730,948
Some liabilities, including long-term debt, are not due and payable in the current period and, therefore, are not reported in the governmental funds:					
Long-term bank debt					(57,749,445)
Net pension obligation					(34,849,374)
Compensated absences and retirement accrual					(14,325,502)
Net position of governmental activities					<u>\$ 3,208,825,867</u>

See accompanying notes to basic financial statements.



## THE NAVAJO NATION

Statement of Revenues, Expenditures, and Changes in  
Fund Balances – Governmental Funds  
Year ended September 30, 2014

Revenues	General Fund (Schedule 7)	Grant Fund	Permanent fund	Other governmental funds	Total governmental funds
Natural resource revenue:					
Oil and gas	\$ 60,580,712	—	—	—	60,580,712
Mining	56,113,319	—	—	—	56,113,319
Tax revenue, net (note 10)	86,558,175	—	—	13,836,912	100,395,087
Land, buildings, business site, and right-of-way right-of-way revenue	62,347,414	—	—	—	62,347,414
Grant revenue	—	325,667,036	—	—	325,667,036
Interest and dividends	1,377,149	—	57,877,165	11,124,371	70,378,685
Net increase in fair value of investments	(1,789)	—	117,920,409	11,131,041	129,049,661
Other revenue	4,926,608	—	962,280	13,806,534	19,695,422
Statutory allocation to permanent fund	(32,430,524)	—	35,083,919	(1,398,979)	1,254,416
Statutory allocation of current year revenues	(25,209,208)	—	—	19,286,921	(5,922,287)
Total revenues	214,261,856	325,667,036	211,843,773	67,786,800	819,559,465
Expenditures					
Current:					
General government	60,470,206	12,111,835	7,701,370	8,379,706	88,663,117
Economic development and planning	4,655,033	65,112	—	—	4,720,145
Community and rural development	61,439,680	25,076,162	—	5,183,449	91,699,291
Education and training	20,928,010	54,877,748	—	4,832,309	80,638,067
Natural resources	23,273,805	18,124,362	—	1,509,031	42,907,198
Public safety	15,460,272	45,036,310	—	3,183,830	63,680,412
Health and welfare	16,785,525	137,869,152	—	—	154,654,677
Culture and recreation	1,466,429	32,453	—	796,548	2,295,430
Transportation	—	9,042,197	—	2,394,253	11,436,450
Debt service – principal	26,660	—	—	1,899,137	1,925,797
Capital outlay	7,450,432	23,431,705	—	10,347,686	41,229,823
Total expenditures	211,956,052	325,667,036	7,701,370	38,525,949	583,850,407
Excess of revenues over expenditures	2,305,804	—	204,142,403	29,260,851	235,709,058
Other Financing Sources (Uses)					
Long-term debt issued (note 8)	—	—	—	2,800,000	2,800,000
Transfers (note 6)	(7,263,891)	—	—	2,000,000	(5,263,891)
Total other financing sources (uses)	(7,263,891)	—	—	4,800,000	(2,463,891)
Extraordinary Item					
Claims settlement (note 3)	554,000,000	—	—	—	554,000,000
Fees associated with claims settlement	(62,956,710)	—	—	—	(62,956,710)
Total extraordinary item	491,043,290	—	—	—	491,043,290
Net change in fund balances (Exhibit E)	486,085,203	—	204,142,403	34,060,851	724,288,457
Fund balance, beginning of year	181,541,943	—	1,564,088,641	361,887,006	2,107,517,590
Fund balance, end of year	\$ 667,627,146	—	1,768,231,044	395,947,857	2,831,806,047

See accompanying notes to basic financial statements.

Exhibit E

THE NAVAJO NATION

Reconciliation of the Statement of Revenues,  
Expenditures, and Changes in Fund Balances of  
Governmental Funds to the Statement of Activities

Year ended September 30, 2014

Net change in fund balances – governmental funds (Exhibit D)		\$ 724,288,457
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Capital outlay	\$ 41,096,152	
Depreciation expense	(16,148,529)	
		24,947,623
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position		1,925,797
Proceeds from the issuance of debt is a revenue in the governmental funds, but is reflected as a liability in the statement of net position		(2,800,000)
Compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		(390,723)
Net pension obligations do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		(4,091,246)
Internal service funds are used by the Nation to charge the costs of certain activities to the individual funds. The net revenue (including transfers of \$1,479,660) of internal service funds applicable to governmental activities is reported with governmental activities (Exhibit G)		4,036,501
Change in net position of governmental activities (Exhibit B)		\$ 747,916,409

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**

Statement of Net Position

Proprietary Funds

September 30, 2014

**Exhibit F**

Assets	Business-type activities – enterprise funds	Governmental activities – internal service funds
Current assets:		
Cash and cash equivalents (note 2)	\$ 29,558,258	28,991,506
Investments (note 2)	6,908,129	39,454,166
Receivables:		
Accrued interest receivable, net	775	66,554
Accounts receivable	52,421	1,617,505
Current portion of notes receivable (note 3)	4,126,317	—
Total receivables	4,179,513	1,684,059
Other current assets	—	282,125
Total current assets	40,645,900	70,411,856
Noncurrent assets:		
Receivables:		
Notes receivable, net (note 3)	8,018,807	—
Capital assets (note 4):		
Land and land development costs	739,419	—
Buildings	20,134,916	51,828
Vehicles	—	42,121,765
Equipment	1,701,488	7,022,256
Total capital assets	22,575,823	49,195,849
Accumulated depreciation	9,306,775	41,131,296
Capital assets, net	13,269,048	8,064,553
Other assets	4,199,577	—
Total noncurrent assets	25,487,432	8,064,553
Total assets	\$ 66,133,332	78,476,409
<b>Liabilities and Net Position</b>		
Current liabilities:		
Accounts payable (note 7)	\$ 244,804	1,338,561
Current portion of compensated absences (note 8)	130,374	263,195
Current estimated claims payable (note 8)	—	12,637,737
Accrued liabilities (note 7)	282,347	337,942
Total current liabilities	657,525	14,577,435
Noncurrent liabilities:		
Compensated absences (note 8)	119,849	—
Estimated claims payable (note 8)	—	6,168,026
Total noncurrent liabilities	119,849	6,168,026
Total liabilities	777,374	20,745,461
Net position:		
Net investment in capital assets	13,269,048	8,064,553
Expendable restricted net position		
Restricted for claims and refunds	—	28,910,254
Unrestricted	52,086,910	20,756,141
Total net position	65,355,958	57,730,948
Total liabilities and net position	\$ 66,133,332	78,476,409

See accompanying notes to basic financial statements.

## THE NAVAJO NATION

## Statement of Revenues, Expenses, and Changes in Fund Net Position

## Proprietary Funds

Year ended September 30, 2014

	<b>Business-type activities – enterprise funds</b>	<b>Governmental activities – internal service funds</b>
Operating revenues:		
Rental income	\$ 1,176,968	—
Interest income – notes receivable	1,006,905	—
Insurance premium income	—	41,923,333
Charges for services	11,968,400	17,495,148
Other income	1,251,764	3,520,580
Total operating revenues	15,404,037	62,939,061
Operating expenses:		
Personnel	4,697,154	6,029,362
Travel, per diem, and vehicle	818,252	566,980
Supplies	621,848	7,873,862
Contractual service	862,532	790,319
Lease, telephone, and utilities	532,345	564,075
Repairs and maintenance	425,077	633,261
Provision of bad debts	486,610	—
Depreciation expense	411,437	3,297,111
Benefits and claims	—	31,721,232
Reinsurance premiums	3,514	6,467,946
Other expenses	1,352,141	4,180,530
Total operating expenses	10,210,910	62,124,678
Operating income	5,193,127	814,383
Nonoperating revenues:		
Interest and dividends	9,207	430,514
Net increase in fair value of investments	—	1,311,944
Total nonoperating revenues	9,207	1,742,458
Nonoperating revenues, net	9,207	1,742,458
Income before transfers	5,202,334	2,556,841
Transfers (note 6)	4,641,415	1,479,660
Change in net position	9,843,749	4,036,501
Net position, beginning of year	55,512,209	53,694,447
Net position, end of year	\$ 65,355,958	57,730,948

See accompanying notes to basic financial statements.

## THE NAVAJO NATION

## Statement of Cash Flows

## Proprietary Funds

Year ended September 30, 2014

	Business-type activities – enterprise funds	Governmental activities – internal service funds
Cash flows from operating activities:		
Receipts from customers	\$ 11,097,444	17,521,954
Cash received for premiums from the government	—	26,661,468
Cash received from others for premiums	—	17,703,690
Receipt of interest on loans	1,006,905	—
Payments to employees for services	(5,284,613)	(6,029,362)
Payments of claims	—	(34,012,679)
Payments to suppliers	(621,848)	(7,801,257)
Payments to third parties for services	(2,932,408)	(11,971,677)
Other receipts	3,645,676	3,836,021
Net cash from operating activities	6,911,156	5,908,158
Cash flows from capital and related financing activity:		
Acquisition of capital assets	(171,943)	(2,795,720)
Net cash from capital and related financing activity	(171,943)	(2,795,720)
Cash flows from noncapital and related financing activity:		
Transfer for economic development	3,855,166	—
Net cash from capital and related financing activity	3,855,166	—
Cash flows from investing activities:		
Purchase of investments	(39,111,122)	(65,948,659)
Sales of investments	38,507,224	53,085,522
Interest on investment and cash balances	9,288	444,202
Net cash from investing activities	(594,610)	(12,418,935)
Net increase (decrease) in cash and cash equivalents	9,999,769	(9,306,497)
Cash and cash equivalents, beginning of year	19,558,489	38,298,003
Cash and cash equivalents, end of year	\$ 29,558,258	28,991,506
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 5,193,127	814,383
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	411,437	3,297,111
Provision for bad debts	486,610	—
Transfers for operations	786,249	1,479,660
Decrease (increase) in accounts receivable	(69,167)	2,465,584
Decrease in other assets	—	75,652
Decrease in notes receivable	54,888	—
Increase in compensated absences	75,932	—
Increase (decrease) in accounts payable	(27,920)	720,754
Decrease in estimated claims payable	—	(2,944,986)
Total adjustments	1,718,029	5,093,775
Net cash from operating activities	\$ 6,911,156	5,908,158

See accompanying notes to basic financial statements.

**Exhibit I**

**THE NAVAJO NATION**  
Statement of Fiduciary Net Position  
Fiduciary Funds  
September 30, 2014

<b>Assets</b>	<b>Pension trust funds</b>	<b>Private- purpose trust funds</b>
Cash and cash equivalents (note 2)	\$ 20,528,817	35,653,580
Investments (note 2)	715,941,686	126,835,526
Accrued interest receivable	1,021,289	1,039,875
Note receivable (note 3)	294,638	8,435,334
Participant loans receivable	7,710,967	—
Total assets	<u>745,497,397</u>	<u>171,964,315</u>
<b>Liabilities and Net Position</b>		
Accounts payable (note 7)	<u>633,536</u>	<u>370,421</u>
Total liabilities	<u>633,536</u>	<u>370,421</u>
Net position held in trust for pension benefits and other purposes	<u>\$ 744,863,861</u>	<u>171,593,894</u>

See accompanying notes to basic financial statements.



**THE NAVAJO NATION**  
Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Year ended September 30, 2014

	<b>Pension trust funds</b>	<b>Private- purpose trust funds</b>
Additions:		
Interest and dividends	\$ 14,386,909	3,637,272
Net increase in fair value of investments	58,884,181	8,212,934
Contributions to plans	55,836,286	—
Tax revenue	—	10,453,464
Other revenue	237,854	130,597
Statutory allocation of current year revenue, net	—	4,667,871
Transfers	—	(857,184)
Total additions	<u>129,345,230</u>	<u>26,244,954</u>
Deductions:		
Personnel	553,153	779,042
Travel	64,586	221,648
Supplies	24,939	41,111
Chapter disbursements	—	4,326,948
Tribal grants	300	3,535,816
Utilities	118,152	30,631
Repair and maintenance	160	196,208
Retirement benefits	36,328,533	—
Contractual services	3,538,918	289,556
Scholarship payments	—	313,803
Other	499,034	1,423,991
Total deductions	<u>41,127,775</u>	<u>11,158,754</u>
Change in net position	88,217,455	15,086,200
Net position, beginning of year	<u>656,646,406</u>	<u>156,507,694</u>
Net position, end of year	<u><u>\$ 744,863,861</u></u>	<u><u>171,593,894</u></u>

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2014

**(1) Basis of Accounting and Summary of Significant Accounting Policies**

**(a) Reporting Entity**

The accompanying financial statements reflect the operations and financial position of the operations, which are accounted for by the Office of the Controller of the Navajo Nation. These operations provide the Navajo Nation (the Nation) with traditional governmental services such as public safety, education, health, and management of natural resources, as well as certain other activities such as economic development, community development, chapter projects, transportation, and cultural and recreational activities and employee benefits.

The Nation has adopted Government Accounting Standards Board (GASB) Statement 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement 14 and GASB Statement 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. GASB Statement 39 provides additional guidance to determine whether certain organizations for which the Nation is not financially accountable should be reported as discretely presented component units based on the nature and significance of their relationship with the Nation. GASB Statement 61 modifies certain requirements for inclusion of component units in the financial reporting entity and amends the criteria for blending component units within the primary government in certain circumstances.

The financial statements do not include the assets, liabilities, net position, or results of operations of certain entities that are legally separate from the Nation and/or which are financially accountable to the Nation. Some of these entities have had capital investments and contributions made by the Nation. U.S. generally accepted accounting principles (GAAP) require the financial statements of such entities to be included in the financial statements.

The financial statements do not include the financial position or activities of various private and governmental agencies operating within reservation boundaries or programs conducted on the Navajo reservation, which do not involve the use of Nation funds and over which the Navajo Nation Council does not exercise fiscal or administrative control.

As a Native American Indian Tribe, the Nation considers itself exempt from federal and state income taxes.

**(b) Government-Wide Financial Statements**

The government-wide financial statements (i.e., the statement of net position and activities) display information about the Nation's governmental and business-type activities. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations of internal activity have been made in these statements. The governmental activities are reported separately from the business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Nation's governmental and business-type activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2014

or capital requirements of a particular function or segment. Taxes and other revenues not properly included among program revenues are reported as general revenues.

**(c) Fund Financial Statements**

The Nation uses funds to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate fund types. Separate financial statements are provided for the governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed as a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds. Internal service funds and each of the fiduciary fund types are reported in the aggregate.

The funds used by the Nation are as follows:

**Governmental Funds**

*General Fund (Major fund)*

The General Fund represents the operating activities of the Nation. The Navajo Nation Council appropriates funds for the expenditures of the General Fund. Within the General Fund, funds are appropriated in the following categories:

Operating Appropriations – Appropriations allocated to operating departments and programs that are budgeted annually. Unencumbered balances at the close of each fiscal year revert to General Fund unassigned fund balance, unless otherwise specified by the Navajo Nation Council.

Capital Project Appropriations – Appropriations for items of a capital nature. Unencumbered balances at the close of each fiscal year revert to General Fund unassigned fund balance, unless otherwise specified by the Navajo Nation Council.

Reimbursements of administrative costs (indirect costs) incurred by the Nation's General Fund in connection with the administration of programs funded by various grantor agencies are recorded as expenditures in the Grant Fund and as a reduction of General Fund expenditures. Realization of the amounts recorded is subject to approval and audit by grantor agencies and availability of funds from such grantors.

In connection with the adoption of GASB Statement No. 54 in 2011, the Nation consolidated several funds, which were previously classified as a special revenue fund type into the General Fund. The following is a list of those funds.

## **THE NAVAJO NATION**

### **Notes to Basic Financial Statements**

September 30, 2014

#### **Navajo Dam Escrow Fund (included in General Fund)**

The Navajo Dam Escrow Fund is used to account for monetary settlements received in connection with an agreement between the Nation and the City of Farmington, New Mexico. Funds within the account shall be used solely for the purpose of collateralizing loans to Navajo individuals or entities within the San Juan County, New Mexico portion of the Nation.

#### **Navajo Rehabilitation Trust Fund (included in General Fund)**

The Navajo Rehabilitation Trust Fund is used to account for amounts received from the U.S. government to benefit Navajo people and communities affected by the settlement of the Navajo/Hopi land dispute.

#### **Oil and Gas Development Fund (included in General Fund)**

The Oil and Gas Development Fund is used to provide financing for development projects and related costs of the Navajo Nation Oil and Gas Company, Inc. in furtherance of the Navajo Nation Energy Policy and pursuant to its corporate charter.

#### **Navajo Nation Reforestation Fund (included in General Fund)**

The Navajo Nation Reforestation Fund is used to account for funds reserved for the purpose of reseeding land within the Nation.

#### **Capital Outlay Match Fund (included in General Fund)**

The Capital Outlay Match Fund was established during 2001 with a \$5,000,000 appropriation from the Navajo Nation Council. The Nation often receives capital outlay grants for projects that benefit the Navajo people. The purpose of the Capital Outlay Match Fund is to establish a ready source of funds to meet the matching requirements associated with these grants.

#### **Historical Trust Asset Mismanagement Litigation Trust Fund (included in General Fund)**

The Historical Trust Asset Mismanagement Litigation Trust Fund is used to account for the accumulation of funds expected to be used to fund a historical trust asset mismanagement lawsuit against the United States for the potential recovery of monetary damages and other relief for the United States' failure to fulfill trust obligations and duties related to and concerning proper management and accounting of the Nation's tribal trust assets.

#### **License Plate Revenue Fund (included in General Fund)**

The License Plate Revenue Fund was established to account for the revenue from the sale of Arizona specialty license plates.

## THE NAVAJO NATION

### Notes to Basic Financial Statements

September 30, 2014

#### *Special Revenue Fund Type*

Special Revenue Funds are used to account for revenue from specific sources that are restricted by law or administrative action for specific purposes as follows:

##### **Grant Fund (Major fund)**

The Grant Fund is used to account for the activities and programs over which the Nation exercises fiscal and administrative control, which are financed by various grantors. Program expenditure budgets are approved by the grantors. Disallowed costs, if any, resulting from compliance audits are recorded during the period when an amount is mutually agreed upon.

##### **Scholarship Fund (Nonmajor fund)**

The Scholarship Fund is used to account for certain assets budgeted to provide scholarships to tribal members for educational purposes. 10% of sales tax revenue, net of statutory transfers to the Permanent Fund, Veterans Trust Fund, and Land Acquisition Fund are deposited to this Fund.

##### **Navajo Tourism Fund (Nonmajor fund)**

The Navajo Tourism Fund is used to account for taxes, which are assessed on hotel room rentals within the Nation. The funds are to be used to improve tourism in the Nation.

##### **Navajo Nation Environmental Protection Agency Fund (Nonmajor fund)**

The Navajo Nation Environmental Protection Agency Fund is used to account for fees and penalties imposed upon owners and operators of underground storage tanks. The funds are to be used to administer and regulate the Navajo Nation Underground Storage Tank Act.

##### **Tax Suspense Fund (Nonmajor fund)**

The Tax Suspense Fund is used to account for 5% of actual tax payments received, which are set aside to pay future tax claims and refunds. No later than 60 days prior to the end of each fiscal year, the Navajo Tax Commission shall make a determination as to what amount, if any, may be released from the fund to the General Fund.

##### **Water Rights Fund (Nonmajor fund)**

The Water Rights Fund was established in 2003 with a \$2,100,000 appropriation from the Nation's Council. The purpose of the Water Rights Fund is to provide assured annual funding for the protection of the Nation's water rights in the states of Arizona, Utah, and New Mexico.

##### **Navajo Nation Roads Fund (Nonmajor fund)**

The Navajo Nation Roads Fund is used to account for the proceeds generated from the Nation's fuel excise tax. The tax proceeds are to be utilized to meet highway funding regulations and design standards, to improve overall road systems, to improve safety, and to meet community and economic development needs.

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Notes to Basic Financial Statements  
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**Land Acquisition Fund (Nonmajor fund)**

The Land Acquisition Fund is used to provide revenues to acquire land for the Nation in accordance with the Navajo Nation Land Acquisition Policies and Procedures. 2% of all unrestricted revenues of the Nation are transferred to the Land Acquisition Fund. The Navajo Nation Council resolution, which established the fund, stipulates that the principal may not be expended except pursuant to a referendum adopted by a two-thirds majority vote of the Navajo Nation Council. 90% of the income earned is available for the stated purpose; the remainder is to be reinvested as principal.

**Gaming Development Fund (Nonmajor fund)**

The Gaming Development Fund is used to account for the proceeds generated from any agreements entered into by the Nation concerning the lease of gaming machines to any other Indian Nation. These sources of revenues will be used to provide funding for gaming development within the Nation.

**Gaming Revenue Distribution Fund (Nonmajor fund)**

The Gaming Revenue Distribution Fund is used to account for the proceeds received from the Navajo Nation Gaming Enterprise and to provide an allocation plan for the use of the revenues received.

**Judicial/Public Safety Facilities Fund (Nonmajor fund)**

The Judicial/Public Safety Fund was established to provide funding for judicial and public safety facilities as approved by the Judiciary Committee and Public Safety Committee. Projects or activities funded by this fund include planning, site clearance, and development; site improvement and landscape development; utility access; street access and parking areas; construction, maintenance, renovation, and repair; and debt service financing as needed for these activities. 20% of sales tax revenue, net of statutory transfers to the Permanent Fund, Veterans Trust Fund, and Land Acquisition Fund are deposited to this fund.

**Department of Public Safety (DPS) Gaming Fund (Nonmajor fund)**

The DPS Gaming Fund was established to provide funding for police services at various Nation casinos.

***Debt Service Fund Type***

Debt Service Funds are used to account for and report financial resources that are restricted to expenditures for principal and interest of long-term debt as follows:

**NTUA Key Bank Loan Fund (Nonmajor fund)**

The Navajo Tribal Utility Authority (NTUA) Key Bank Loan Fund was established to provide funding for emergency services to residents of the Nation without access to water because of extended, extreme freezing temperatures on the Navajo Nation. The fund was established with



## THE NAVAJO NATION

### Notes to Basic Financial Statements

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an unsecured general obligation credit facility. The loan will be repaid with the proceeds received from NTUA.

#### ***Permanent Fund Type***

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 that support the Nation's programs. The Nation has the following permanent fund types:

##### **Permanent Fund (Major fund)**

The Permanent Fund was established to provide revenues in future years. The Navajo Nation Council resolution, that established the fund, stipulates that the principal may not be expended except pursuant to a referendum approved by the Navajo Nation Council and adopted by a two-thirds majority vote of registered Navajo voters. Through September 20, 2005, 12% of all unrestricted revenues of the Nation were required to be transferred to the Permanent Fund. During 2009, the Navajo Nation Council suspended transfers of unrestricted revenue to the Permanent Fund. Beginning October 1, 2005, 95% of the fund's income is available to supplement operations of the Nation's government. Beginning October 1, 2006, 50% of the fund's income is available to be transferred to the Local Governance Trust Fund once a five-year spending plan is established.

##### **Chapter Government Nation Building Fund (Claims Fund) (Nonmajor fund)**

The Chapter Government Nation Building Fund is used to account for assets budgeted for use on chapter projects. 95% of income earned on the assets is to be distributed to Navajo chapters for the benefit of chapter members.

#### **Proprietary Funds**

Proprietary Funds are used to account for activities that are similar to those often found in the private sector. The Nation utilizes the following proprietary funds:

#### ***Enterprise Fund Type***

Enterprise Funds are used to report activity for which a fee is charged to external users for goods and services. The Nation utilizes the following enterprise funds:

##### **Business and Industrial Development Fund (Nonmajor fund)**

The Business and Industrial Development Fund was established to promote economic development through investment in, and loans to, entities that conduct business on the reservation. 10% of sales tax revenue, net of statutory transfers to the Permanent Fund, Veterans Trust Fund, and Land Acquisition Fund are deposited to this Fund.

##### **Loan Fund (Nonmajor fund)**

The Loan Fund is used to account for the loan programs that are administered by the Credit Services Department of the Division of Finance or the Veterans' Affairs Program of the Division of Human Resources.

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### **Notes to Basic Financial Statements**

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#### **Employee Housing (Nonmajor fund)**

The Employee Housing Department maintains and rents 149 housing units to Nation employees. Monthly rental payments are automatically deducted from Nation employee paychecks and are expected to be sufficient to fund the operations of the program.

#### **Archaeology Services (Nonmajor fund)**

The Navajo Nation Archaeology Department (NNAD) provides archaeology compliance services to the Nation's people, federal and state agencies, and developers working on the reservation. NNAD charges fees for its services based on the nature of the work performed, which are expected to be sufficient to fund operations of NNAD.

#### **Parks and Recreation Fund (Nonmajor fund)**

The Parks and Recreation Fund is utilized to account for the scenic tour fees, gift shop charges, camping fees, and other charges associated with Nation parks and recreation areas. The largest of these parks is the Monument Valley Tribal Park. The fees collected are expected to be sufficient to fund the Parks and Recreation department operations.

#### **Fish and Wildlife Fund (Nonmajor fund)**

The Fish and Wildlife Fund was established to manage, conserve, and protect the Nation's fish, wildlife, and plant resources and their habitats. The fund is utilized to account for the fees collected from hunting, fishing, and other wildlife management activities.

#### **Navajo Nation Code Fund (Nonmajor fund)**

The Navajo Nation Code Fund was established to account for the revenues generated from sale, reproduction, and transmission of the Navajo Nation Code and related expenses.

#### **Navajo Transit Fund (Nonmajor fund)**

The Navajo Transit Fund was established to account for the revenues generated from fixed route transportation services for transporting passengers and their baggage, newspapers, and express mail, between points in New Mexico and Arizona. In addition, the fund accounts for charter transportation services for passengers and their baggage between points in Arizona and New Mexico and other points in Utah, Colorado, California, Nevada, Idaho, Oregon, Washington, Oklahoma, Texas, Kansas, Mississippi, Illinois, Arkansas, Tennessee, North Carolina, Virginia, Missouri, Louisiana, and the District of Columbia.

#### **Livestock Custody Fund (Nonmajor fund)**

The Livestock Custody Fund was established to administer service fees under Inspection of Livestock provided from the Navajo Department of Resource Enforcement; to enhance methods of seizure of livestock to safeguard the livestock industry, the livestock owner, and the Navajo Nation Government; to develop and maintain records for purposes of livestock tracking, animal identification, and ownership identification; to adhere to service charges and fees established by

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Navajo law; to initiate and establish a livestock identification program required by the U.S. government; and to collect penalties from violations of Navajo law regarding livestock.

**Fourth of July Celebration Fund (Nonmajor fund)**

The Fourth of July Celebration Fund was established to provide a dedicated source of funds to the Annual Navajo Nation Fourth of July Celebration as a self-sustaining event. All sources of revenue from this event as well as expenses are recorded in this fund.

**Annual Navajo Nation Fair Fund (Nonmajor fund)**

The Annual Navajo Nation Fair Fund was established to provide a dedicated source of funds to the Annual Navajo Nation Fair as a self-sustaining event. All sources of revenue from this event as well as expenses are recorded in this fund.

**Tribal Ranch Fund (Nonmajor fund)**

The Navajo Nation Tribal Ranch Fund was established to administer and regulate the Nation's tribal ranches specifically, ensuring the ranchers and lessees comply with U.S. Forest Service, Bureau of Land Management, adjoining states, and other governmental regulations and/or guidelines.

***Internal Service Fund Type***

Internal service funds are utilized to account for goods or services that are provided to the Nation's departments on a cost-reimbursement basis. The Nation utilizes the following internal service funds:

**Fleet Management (Nonmajor fund)**

The Fleet Management department provides motor vehicle transportation services to the Nation's departments and programs, including those of certain affiliates. Fees collected from vehicle rentals and mileage are expected to be sufficient to sustain operations of the program.

**Duplicating Services (Nonmajor fund)**

The Duplicating Services department provides duplicating services to the Nation's departments and programs, including those of certain affiliates. Fees collected from duplicating services are expected to be sufficient to sustain operations of the program.

**Office Supply Center (Nonmajor fund)**

The Office Supply Center procures office supplies, which are sold to the Nation's departments and programs, including those of certain affiliates. Fees collected from the sale of supplies are expected to be sufficient to sustain operations of the program.

## **THE NAVAJO NATION**

### **Notes to Basic Financial Statements**

September 30, 2014

#### **Air Transportation (Nonmajor fund)**

The Air Transportation department utilizes three aircraft to provide flight services to Nation employees and third parties working on Nation government business. Fees billed to Nation departments for individual flights are expected to be sufficient to support program operations and aircraft maintenance.

#### **Group Health Self-Insurance Fund (Nonmajor fund)**

The Group Health Self-Insurance Fund is used to account for the accumulation of funds, which are expected to be used to pay for health insurance claims of the Nation and certain affiliates. Life insurance premiums of third-party providers are also paid from this fund. The majority of this fund's services are provided to departments and programs of the Nation's primary government.

#### **Property and Casualty Self-Insurance (Risk Management) Fund (Nonmajor fund)**

The Property and Casualty Self-Insurance (Risk Management) Fund is used to account for the accumulation of funds, which are expected to be used to pay for liability and property claims and related costs necessary to administer a comprehensive risk management program for the Nation and certain affiliates. The majority of this fund's services are provided to departments and programs of the Nation's primary government.

#### **Workers' Compensation Self-Insurance Fund (Nonmajor fund)**

The Workers' Compensation Self-Insurance Fund is used to account for the accumulation of funds, which are expected to be used to pay for workers' compensation claims of employees of the Nation and of certain affiliates. The majority of this fund's services are provided to departments and programs of the Nation's primary government.

#### **Contingency Management Fund (Nonmajor fund)**

The Contingency Management Fund was established in 1996 through a transfer of General Fund amounts. The Contingency Management Fund is used to account for management of the Nation's risk of loss.

#### **Fiduciary Funds**

Fiduciary funds are utilized to account for assets held in a trustee capacity for others and, therefore, cannot be used to support the Nation's programs. Fiduciary funds are not classified as either major or nonmajor. The Nation uses the following fiduciary funds:

##### ***Pension Trust Funds***

#### **Retirement Fund**

The Retirement Fund includes the activities of the retirement plan for the Nation and certain affiliates. The plan covers all full-time employees. The provision for the retirement plan contribution is sufficient to cover the plan's normal cost and amortization of past service costs

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over 40 years. The policy is to fund pension costs accrued. Contributions are recognized when received and retirement benefits are recognized when paid.

**Deferred Retirement Fund**

The Deferred Retirement Fund includes the activities of the deferred retirement plan, which covers members of the Navajo Nation Council, the President, and the Vice President, and the deferred compensation plan, which covers employees who serve at the pleasure of the Navajo Nation Council, the President, and Speaker of the Council. The contribution to the fund is based upon a percentage of an official's compensation and is funded currently. The participants' deferred compensation benefit is their share of the market value of the fund.

**Nihibeeso 401(k) Fund**

The Nihibeeso 401(k) Fund includes the activities of the 401(k) retirement plan for the Nation and certain affiliates. Any employee of the Nation or participating affiliate over the age of 21 is eligible to participate in this plan. Contributions by the Nation vest after four years of service. Employees may contribute up to 16% of their compensation and the Nation will match 50% of the first 6% of the employee's contribution. Contributions are funded currently.

***Private-Purpose Trust Funds***

**Handicapped Services Trust Fund**

The Handicapped Services Trust Fund is used to supplement programs and projects, which provide services to handicapped Navajo citizens. The Navajo Nation Council resolution, that established the fund, stipulates that the principal may not be expended except pursuant to a referendum adopted by a two-thirds majority vote of registered Navajo voters. 95% of the income earned is available for the stated purpose; the remainder is to be reinvested as principal.

**Senior Citizens Services Trust Fund**

The Senior Citizens Services Trust Fund is used to supplement programs and projects, which provide services to Navajo senior citizens. The Navajo Nation Council resolution, that established the fund, stipulates that the principal may not be expended except pursuant to a referendum adopted by a two-thirds majority vote of registered Navajo voters. 95% of the income earned is available for the stated purpose; the remainder is to be reinvested as principal.

**Vocational Education Trust Fund**

The Vocational Education Trust Fund is used to fund grants to Navajo students attending vocational education institutions and to apprentices and practitioners selected to participate in the Navajo Traditional Apprenticeship Project on an annual basis.

The Navajo Nation Council resolution, that established the fund, stipulates that the principal may not be expended except pursuant to a referendum adopted by a two-thirds majority vote of registered Navajo voters. 4% of the previous year's market value of the fund is available for the stated purpose; the remainder is to be reinvested as principal.

## **THE NAVAJO NATION**

### **Notes to Basic Financial Statements**

September 30, 2014

#### **Navajo Academy Trust Fund**

The Navajo Academy Trust Fund is intended to be used by the Navajo Preparatory School to provide funds to upgrade classroom equipment and materials, to fund costs associated with new educational facilities, and to fund scholarships for Navajo Preparatory School graduates to pursue postsecondary education. The Navajo Nation Council resolution, that established the fund, stipulates that the principal may not be expended except pursuant to a referendum adopted by a two-thirds majority of registered Navajo voters. 4% of the previous year's market value of the fund is available for the stated purpose; the remainder is to be reinvested as principal.

#### **Navajo Trust Fund**

The Navajo Trust Fund was established as a result of the exchange/sale of the former Phoenix Indian School property. The United States wanted to acquire private land adjacent to the Big Cypress National Preserve to be included in the National Wildlife Refuge System and offered in exchange for this property the former Phoenix Indian School property. Trust income may be used only for supplemental educational and child welfare programs, activities, and services to benefit the Nation, and the design, construction, improvement, or repair of related facilities.

#### **Sales Tax Trust Fund**

The Sales Tax Trust Fund is used to accumulate net sales tax revenue collected from retail establishments on the Navajo reservation. The net sales tax revenue collected from retail establishments is to be distributed to the specific Nation chapter in which the retail sale occurred, so long as that chapter is governance-certified as defined by the Navajo Nation Local Governance Act. Net sales tax revenue collected from retail establishments where no governance certified chapter exists shall be distributed pursuant to a plan of operation developed by the Nation and approved by the Budget and Finance Committee of the Navajo Nation Council.

#### **Local Governance Trust Fund**

The Local Governance Trust Fund was established during 2001 with a \$2,400,000 appropriation from the Navajo Nation Council. The purpose of the Local Governance Trust Fund is to support the chapters of the Nation in the implementation of the Local Governance Act enacted by the Navajo Nation Council in 1998.

#### **Veterans' Trust Fund**

The Veterans' Trust Fund is used to account for the accumulation of funds, which are expected to be used to pay for veterans' programs, projects, and services or activities, as well as survivors' benefits for the surviving spouses of deceased veterans. Beginning in fiscal year 2009, 4% of all unrestricted revenues are transferred to the Veterans' Trust Fund. Beginning in fiscal year 2004, 4% of the average market value of the fund is available to be spent for the stated purpose; the remainder is to be reinvested as principal.

**THE NAVAJO NATION**  
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**Navajo Bennett Freeze Trust Fund**

The Navajo Ben Freeze Fund is used to record the disputed area receipts. The fund was established during 2011 with a deposit of \$5,700,000 that was disbursed out of an escrow from the U.S. Treasury. The funds from the escrow account are for the use and benefit of the Western Navajo Agency Chapters impacted by the Bennett Freeze.

**(d) *Measurement Focus, Basis of Accounting, and Financial Statement Presentation***

The government-wide financial statements are reported using the economic resources measurement focus, which reflects all long-term assets and liabilities, and the modified accrual budget basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are generally recorded when earned, except for taxes and natural resources revenue, which are recognized when received, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Administrative overhead charges are included with direct expenses.

Governmental fund financial statements are accounted for using the current financial resources measurement focus and the modified accrual budget basis of accounting, which has been developed based upon U.S. GAAP as modified by Navajo Nation Council resolutions. Under this basis of accounting, governmental fund revenues are recorded when susceptible to accrual, i.e., both measurable and available to be budgeted to pay liabilities of the current period, except for taxes and natural resources revenue, which are recognized when received. Interest income generated by assets of the Grant Fund is recorded in the General Fund. Other financing sources include the proceeds of long-term debt and obligations under capital leases. Notes receivable from related enterprises are recorded as assets of the funds that financed the notes.

The Nation prepares its budget on the budgetary basis of accounting, which differs from the modified accrual budget basis of accounting. The difference between the budgetary basis and the modified accrual budget basis of accounting is that encumbrances are recorded as the equivalent of expenditures (budgetary basis) as opposed to a commitment of fund balance (modified accrual budget basis).

In applying the susceptible to accrual concept to Grant Fund revenues, the legal and contractual requirements of the individual programs are used as guidance. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met and the related expenditure has been incurred. Such expenditures must be expended for the specific purpose outlined in the grant before they are recognized.

Grant Fund expenditures are subject to fiscal and/or program compliance audits by the grantors, which may result in disallowed program expenditures. Generally, such audits must commence within three years of the program's termination date. Expenditures disallowed as a result of such audits, if any, would require a General Fund appropriation.

Proprietary funds distinguish operating revenues and expenses from nonoperating revenues and expenses.

## THE NAVAJO NATION

### Notes to Basic Financial Statements

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*Operating revenues* include activities that are generated through the entity's business activity. Examples include a) loan interest income; b) insurance premiums; c) gift shop charges; d) rental fees; and e) supply charges.

*Nonoperating revenues* include activities that have the characteristics of nonexchange transactions and primarily include interest and dividend income from investments.

*Operating expenses* include activities that have the characteristics of an exchange transaction, such as: a) employee salaries, benefits, and related expense; b) cost of sales and services; c) insurance benefit payments; and d) depreciation expenses related to capital assets.

*Nonoperating expenses* include activities that have the characteristics of nonexchange transactions, such as interest on debt.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the Nation's policy is to first apply the expense toward restricted resources, and then toward unrestricted resources.

#### **(e) Net Position Classification and Fund Balances**

In the government-wide financial statements, net position is classified as follows:

*Net investment in capital assets* represents the Nation's total investment in capital assets, net of outstanding debt related to those capital assets.

*Restricted net position* represent those operating funds on which external restrictions or restrictions imposed by law have been imposed that limit the purposes for which such funds can be used. *Restricted expendable* net position is resources that the Nation is legally or contractually obligated to spend in accordance with imposed restrictions. *Restricted nonexpendable* net position consists of funds in which third parties have stipulated that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income. The income generated from the principal may be expended or added to principal. The government-wide statement of net position reports \$1,989,296,203 of restricted net position, of which \$1,797,141,298 is restricted by enabling legislation.

*Unrestricted net position* consist of those operating funds over which the Navajo Nation Council retains full control to use in achieving any of its authorized purposes.

In the fund financial statements, fund balances are classified depending on the relative strength of the spending constraints placed on the purposes for which resources can be used as follows:

#### *Nonspendable Fund Balance*

This classification includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact.



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*Restricted Fund Balance*

This classification includes amounts constrained to specific purposes externally imposed by creditors (such as through debt covenants) grantor and contributors, or laws or regulations of other governments, or through constitutional provisions, or by enabling legislation.

*Committed Fund Balance*

This classification includes amounts that can only be used for specific purposes, pursuant to constraints imposed by formal action of the government's highest level of decision-making authority. In the case of the Nation, it is the Navajo Nation Council.

*Assigned Fund Balance*

This classification includes amounts that are constrained by the Nation's intent to be used for specific purposes, but neither restricted nor committed.

*Unassigned Fund Balance*

This classification includes amounts that are available for any purpose; these amounts can be reported only in the Nation's General Fund.

The Nation typically uses restricted fund balance first, followed by committed resources, and then assigned resources before unassigned resources.

**(f) Budgetary Information**

Annually, a General Fund budget is adopted on a basis consistent with the budgetary basis of accounting. Budget requests are submitted so that a budget may be prepared. The budget is presented to the Navajo Nation Council for review and a final budget must be prepared and adopted no later than September 30. All supplemental appropriations must also be approved by the Navajo Nation Council. The legal level of control is at the functional level. Encumbrance accounting is employed in governmental funds. Encumbrances outstanding at year-end are reported as reserves of fund balance.

**(g) Cash and Investments**

The Nation considers cash and cash equivalents to be currency on hand, cash held by trustee, demand deposits with banks, short-term investments with an original maturity of three months or less at time of acquisition, and all amounts included in pooled cash accounts.

Investment securities are reported at fair value. The Nation utilizes established quoted market prices for determining the fair value of its equity and corporate debt securities. The Nation also holds various alternative investments in real estate and international equity funds, which are reported at market value. The nation utilizes the market values as reported by its fund managers. The net increase (decrease) in fair value of investments is reported as general revenue in the government-wide statements and as nonoperating revenue in the government-wide and proprietary fund financial statements.

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#### **(h) Capital Assets**

Capital assets, that include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and the proprietary fund financial statements. Such assets are valued at historical cost, if purchased, or fair market value on the date donated, when acquired by gift. Major outlays for capital assets and improvements are capitalized as projects are constructed within the government-wide and proprietary fund financial statements.

No monetary values have been assigned to the interest of the Nation in ancestral lands, irrigation projects, mineral deposits, and a substantial portion of the cost of water wells located on reservation lands, buildings, utility systems, or other improvements, which have been provided or returned by the U.S. government or others under treaty obligations or contributed prior to 1951. Items of a capital nature contributed subsequent to 1951 are capitalized at fair value at the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Depreciation of capital assets is provided by the straight-line method over their estimated useful lives. Estimated useful lives are as follows:

Buildings and improvements	40 years
Vehicles and heavy equipment	4 to 15 years
Equipment	7 years
Data processing equipment	3 to 7 years
Furniture and fixtures	7 years

When fixed assets are retired from service or otherwise disposed of, a gain or loss, if any, on disposal of assets is recognized.

#### **(i) Unearned revenues**

Unearned revenues primarily represent amounts received from funding agencies that have been collected in advance of the revenue recognition criteria.

#### **(j) Accumulated Leave**

The employees of the Nation are granted annual and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated annual leave. Employees are not paid for accumulated sick leave. All accumulated annual leave is accrued in the government-wide, proprietary fund, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

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**(k) Long-Term Liabilities**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net position.

In the governmental fund financial statements, the proceeds of debt issued are reported as other financing sources. Repayment of long-term obligation principal and interest is recorded as an expenditure.

**(l) Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**(m) Accounting Pronouncements Adopted**

In fiscal year 2014, the Nation adopted the requirements of two new GASB statements. GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities (GASB 65)*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The financial reporting impact resulting from the implementation of GASB 65 in the Nation's financial statements was the renaming of "Deferred Revenue" to "Unearned Revenue."

GASB Statement No. 67, *Financial Reporting for Pension Plans (GASB 67)*, which establishes the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefits provided through pension plans. Implementation of the provisions of GASB 67 did not result in changes to the Nation's accounting in fiscal year 2014. However, the Retirement Fund, the pension plan for the primary government and a fiduciary fund of the primary government, did implement GASB 67 in fiscal year 2014. Changes were implemented in compliance with GASB 67 to the presentation of the Retirement Fund (the pension plan) financial statements, notes to the financial statements, and required supplementary information. Implementation included the adoption of assumptions and actuarial calculation of total and net pension liability, comprehensive note disclosures regarding the assumptions and pension liability calculation, and increased investment activity disclosures. The GASB 67 disclosures for the pension plan are included in footnote 9.

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**(2) Cash and Investments**

A summary of cash and investments as of September 30, 2014 is as follows:

Cash, including money market accounts	\$ 562,019,860
Certificates of deposit	5,482,313
Government and federal agency obligations	425,669,049
Municipal bonds	8,766,947
Corporate bonds	362,903,781
Corporate obligations	87,902,268
Marketable securities	1,580,739,009
Alternative investments	185,077,788
Mutual funds	135,159,740
Total cash and investments	<u>\$ 3,353,720,755</u>

Government-wide financial statements (Exhibit A):

Cash and cash equivalents	\$ 181,616,418
Investments	211,118,161
Restricted cash and cash equivalents	324,221,047
Restricted investments	1,737,805,520

Fiduciary funds statement of net assets (Exhibit I):

Pension trust funds:	
Cash and cash equivalents	20,528,817
Investments	715,941,686
Private-purpose trust funds:	
Cash and cash equivalents	35,653,580
Investments	126,835,526
	<u>\$ 3,353,720,755</u>

**(a) Investment Policy**

The Nation's Investment Committee has established an investment policy to provide for the prudent management of invested funds except the Nihibeeso 401(k) Savings Plan fund for which the investments are directed by plan participants. The fundamental goal of the policy is to produce the maximum return possible while preserving the Nation's assets. Qualified investments under the investment policy include investments in domestic equity securities publicly owned and traded; fixed-income securities; U.S. Treasury bills and notes and U.S. agency securities; investment in foreign debt and equity; corporate bonds generally with an S&P rating of A or better although high-yield bonds that are rated less than investment grade are permitted in certain instances; certificates of deposit, provided such amounts are fully insured by the Federal Deposit Insurance Corporation (FDIC) or fully collateralized; repurchase agreements acquired under an Investment Committee approved master agreement; real estate; and alternative investments such as commingled funds of funds and investments in partnerships. All investments will be diversified to minimize risk.

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Investments in natural resource properties, commodities, floating rate securities, equity securities not traded on a national exchange, short sales, warrants, and margin transactions are prohibited. In addition, investments in companies that are involved in litigation or major contractual disputes with the Nation are prohibited.

**(b) Custodial Credit Risk**

In the case of deposits, the custodial credit risk is the risk that in the event of a depository institution failure, the Nation's deposits may not be recovered. The Nation does not have formal deposit policies that limit its exposure to custodial credit risk. At September 30, 2014, the Nation's deposits were not exposed to custodial credit risk as uninsured or uncollateralized.

For an investment, custodial credit 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 or collateral securities that are in the possession of an outside party. The Nation does not have specific policies regarding investment custodial credit risk. As of September 30, 2014, the Nation is not exposed to investment custodial credit risk as all of the Nation's investments are held in the Nation's name.

**(c) Credit Risk**

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation to the Nation. The Nation's investment policy states that it will minimize credit risk by the following:

- Limiting investments to the safest types of securities
- Performing proper due diligence of investment managers
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized

The following table provides information on the credit ratings associated with the Nation's investment in debt securities as of September 30, 2014:

Rating	Government and federal agency obligations	Municipal bonds	Corporate bonds	Corporate obligations	Mutual funds	Total
AAA	\$ 22,791,075	224,495	768,462	38,414,696	—	62,198,728
AA	161,506,540	4,301,990	43,090,278	6,601,974	—	215,500,782
A	—	2,989,299	173,584,106	8,717,625	—	185,291,030
BBB	1,622,488	1,251,163	139,141,784	5,448,003	58,348,460	205,811,898
BB	—	—	6,319,151	11,161,375	—	17,480,526
B	—	—	—	10,557,531	—	10,557,531
CCC	—	—	—	1,538,221	—	1,538,221
D	—	—	—	681,571	—	681,571
Not rated	234,401	—	—	4,483,733	76,811,280	81,529,414
U.S. government guaranteed	239,514,545	—	—	297,539	—	239,812,084
	<u>\$ 425,669,049</u>	<u>8,766,947</u>	<u>362,903,781</u>	<u>87,902,268</u>	<u>135,159,740</u>	<u>1,020,401,785</u>

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**(d) Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Generally the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Nation's investment policy states that it will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations. Operating funds will be invested primarily in short-term securities, money market mutual funds, or similar investment pools.

As of September 30, 2014, the Nation had the following investments and maturities:

Investment type	Fair value	Investment maturities			
		Less than 1 year	1-5 years	6-10 years	10 years +
Certificates of deposit	\$ 5,482,313	5,482,313	—	—	—
Government and federal agency obligations	425,669,049	176,334,512	59,043,073	30,839,659	159,451,805
Municipal bonds	8,766,947	—	2,396,243	1,564,447	4,806,257
Corporate bonds	362,903,781	17,600,472	235,527,355	63,200,580	46,575,374
Corporate obligations	87,902,268	1,515,713	41,983,683	6,858,334	37,544,538
Mutual funds	135,159,740	—	135,159,740	—	—
	<u>\$ 1,025,884,098</u>	<u>200,933,010</u>	<u>474,110,094</u>	<u>102,463,020</u>	<u>248,377,974</u>

**(e) Concentration of Credit Risk**

Concentration of credit risk is the risk of loss attributable to the magnitude of the Nation's investment in a single type of security. The Nation's investment policy prohibits ownership more than 2.5% of the outstanding common shares of any corporation. With the exception of the above limitation, the Nation does not have formal deposit and investment policies that limit its exposure to concentrations of credit risk.

The Nation does not have any investments that represent greater than 5% of total investments with the exception of investments issued or explicitly guaranteed by the U.S. government and mutual funds.

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**(f) Foreign Currency Risk**

The Nation's exposure to foreign currency risk derives from its positions in foreign currency denominated investments. The Nation's investment policy permits it to invest in foreign currency denominated investments, provided that the countries are in developed markets and the countries must be represented on the Europe, Australasia, and Far East index. The Nation's exposure to foreign currency risk is as follows:

	<b>Corporate bonds</b>	<b>Marketable securities</b>	<b>Total</b>
Australian dollar	\$ 4,082,938	—	4,082,938
Brazilian real	880,548	—	880,548
British pound	15,032,913	9,223,417	24,256,330
Canadian dollar	8,393,504	9,084,302	17,477,806
Chinese yuan	—	361,620	361,620
Europe, Australia, and Far East Region	—	17,697,145	17,697,145
European euro	9,335,256	207,967,382	217,302,638
Israeli shekel	—	1,257,716	1,257,716
Japanese yen	1,175,590	—	1,175,590
Norwegian krone	1,641,586	—	1,641,586
Swiss franc	651,372	13,465,297	14,116,669
	<u>\$ 41,193,707</u>	<u>259,056,879</u>	<u>300,250,586</u>

**(g) Pledged Securities**

As of September 30, 2014, the Nation pledged a \$5,482,313 certificate of deposit as security for debt of the Navajo Nation Hospitality Enterprise.

**(3) Accounts, Claims Settlement, and Notes Receivable**

**(a) Governmental Accounts Receivable**

Accounts receivable from grantors of \$48,686,436 represent the majority of the governmental activities restricted accounts receivable balance at September 30, 2014.

**(b) Claims Settlement**

On August 26, 2014, the Nation executed a settlement for the dispute with the U.S. government related to trust mismanagement of assets. A settlement payment of \$554,000,000 was received from the U.S. government on November 9, 2014. As of September 30, 2014, this amount is presented as a claims settlement receivable from the U.S. government. In addition, the Nation owed \$62,956,710 in legal fees associated with the claims settlement as of September 30, 2014.

**(c) Notes Receivable with Navajo Nation Gaming Enterprise**

Notes receivable in the governmental funds and private-purpose trust funds represent loans to the Navajo Nation Gaming Enterprise (NNGE) to fund construction of casinos. The first loan originated

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in 2009 and was amended on June 24, 2010 in an original amount of approximately \$33,986,000 to provide funding for project costs utilized for the construction of the Fire Rock Casino located in Gallup, New Mexico. The note carries an interest rate of 16% (2% is deferred and 14% is paid currently). Principal of \$503,941 is due quarterly plus interest. The note matures on June 30, 2015 with a balloon payment of \$20,157,625 principal and \$2,592,187 of deferred interest due at that time.

During late 2010, the Nation also entered into two separate agreements with NNGE to fund the Flowing Waters Casino in Tse Daa Kaan, New Mexico.

1. Equity loan for \$2,516,250 carrying an interest rate of 16% (2% is deferred and 14% is paid currently). The loan requires quarterly principal payments of \$41,938 beginning March 31, 2011 and matures August 12, 2015 with a balloon payment of \$1,719,438 principal and \$216,344 of deferred interest due at that time.
2. Fixed income loan for \$838,750 carrying an interest rate of 25%. Interest for the first 45 days of the loan was deferred and added to the outstanding principal. Starting November 30, 2010, the loan requires monthly interest payments until the September 30, 2015 maturity at which time the full principal balance of \$865,136 is due.

During late 2011, the Nation also entered into two separate agreements with NNGE to fund the Northern Edge Casino in Fruitland, New Mexico.

1. Equity loan for \$26,250,000 carrying an interest rate of 16% (2% is deferred and 14% is paid currently). The loan requires quarterly principal payments of \$437,500 beginning March 31, 2012 and matures December 31, 2015.
2. Fixed income loan for \$8,750,000 carrying an interest rate of 25%. Interest for the first 45 days of the loan was deferred and added to the outstanding principal. Starting November 30, 2010, the loan requires monthly interest payments until the September 30, 2015 maturity at which time the full principal balance of \$8,750,000 is due.

The above notes were consolidated on April 3, 2012 with a construction draw down loan for the Twin Arrows Casino, near Flagstaff, Arizona. The total amount available for the consolidation and the construction drawn down loan is \$215,000,000. The note requires interest only payments from the closing date (April 3, 2012) to June 30, 2013. Thereafter, the loan requires interest and principal payments based on a 15-year amortization schedule with the remaining principal balance due at March 31, 2020 maturity. As of September 30, 2014, the principal balance is \$197,983,360.

In connection with the consolidated agreements above, the Nation has entered into an arrangement with NNGE whereby NNGE has granted a security interest in its cash balances to the Nation. The Nation utilizes this security interest to ensure it receives scheduled payments on the amounts it has loaned to NNGE. Once the Nation receives its scheduled payments, the remaining cash balances are available to NNGE for its operations. The cash balances subject to this security agreement are not considered to be an asset of the Nation and have not been recorded on the Nation's financial statements.



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In 2010, the Navajo Nation Rehabilitation Trust Fund entered into an agreement with NNGE to fund the Twin Arrows Casino project in Arizona for \$3,715,777. The note received from NNGE is a 30-year amortized note with a 10% interest rate. The outstanding principal balance at September 30, 2014 is \$3,364,842.

As of September 30, 2014, the Nation had the following NNGE receivables recorded in the fund statements:

	<b>Consolidated note</b>	<b>Twin arrows note</b>	<b>Total *</b>
Permanent Fund	\$ 141,447,717	—	141,447,717
Chapter Government Nation			
Building Fund	7,762,016	—	7,762,016
Land Acquisition Fund	35,492,822	—	35,492,822
Scholarship Funds	4,882,459	—	4,882,459
General Fund:			
Navajo Rehabilitation Trust Fund	—	3,364,842	3,364,842
Handicapped Services Fund	1,179,118	—	1,179,118
Senior Citizen Services Fund	1,011,937	—	1,011,937
Vocational Education Fund	1,178,090	—	1,178,090
Veterans' Trust Fund	5,029,201	—	5,029,201
	<u>\$ 197,983,360</u>	<u>3,364,842</u>	<u>201,348,202</u>

\* The notes receivable table above does not include the note receivable balances in the Nihibesso 401(k) fund and the Navajo Trust fund.

In addition to the above, see footnote 14 for discussion of the subsequent event related to the gaming note receivable.

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**(d) Notes Receivable in Business-Type Activity Funds**

Notes receivable for business-type activities consist of the following as of September 30, 2014:

Business industrial development fund:	
Big business loans	\$ 2,519,117
Small business loans	2,671,278
Micro loan program	145,339
	<u>5,335,734</u>
Less allowance for doubtful notes:	
Big business loans	(1,807,491)
Small business loans	(2,457,363)
Micro loans	(124,569)
	<u>946,311</u>
Business industrial development fund loans, net	
Loan fund:	
Home loans	8,979,681
Personal loans	2,578,417
Veterans' loans	751,762
	<u>12,309,860</u>
Less allowance for doubtful notes:	
Home loans	\$ (525,924)
Personal loans	(114,851)
Veterans' loans	(470,272)
	<u>11,198,813</u>
Loan fund loans, net	
Notes receivable, net	12,145,124
Less portion due within one year	4,126,317
Notes receivable due in more than one year	<u>\$ 8,018,807</u>

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**(4) Capital Assets**

A summary of changes in capital assets for the year ended September 30, 2014 is as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending balance</u>
Governmental activities:					
Capital assets not being depreciated:					
Purchased land	\$ 89,373,261	—	—	—	89,373,261
Construction in progress	40,009,917	33,307,654	—	(64,548,880)	8,768,691
Total capital assets not being depreciated	<u>129,383,178</u>	<u>33,307,654</u>	<u>—</u>	<u>(64,548,880)</u>	<u>98,141,952</u>
Capital assets being depreciated:					
Building and improvements	310,238,917	54,160	—	64,548,880	374,841,957
Data processing	17,276,579	—	—	—	17,276,579
Equipment	23,432,561	3,324,000	(9,739)	—	26,746,822
Heavy equipment	28,790,847	—	—	—	28,790,847
Furniture and fixtures	5,635,835	467,787	—	—	6,103,622
Vehicles	100,988,117	6,738,271	(2,310,694)	—	105,415,694
Total capital assets being depreciated	<u>486,362,856</u>	<u>10,584,218</u>	<u>(2,320,433)</u>	<u>64,548,880</u>	<u>559,175,521</u>
Less accumulated depreciation:					
Building and improvements	65,642,341	9,113,176	—	—	74,755,517
Data processing	7,864,250	—	—	—	7,864,250
Equipment	16,236,476	4,242,465	(9,739)	—	20,469,202
Heavy equipment	24,848,392	—	—	—	24,848,392
Furniture and fixtures	1,411,154	691,295	—	—	2,102,449
Vehicles	89,911,907	5,398,704	(2,310,694)	—	92,999,917
Total accumulated depreciation	<u>205,914,520</u>	<u>19,445,640</u>	<u>(2,320,433)</u>	<u>—</u>	<u>223,039,727</u>
Depreciable capital assets, net	<u>280,448,336</u>	<u>(8,861,422)</u>	<u>—</u>	<u>64,548,880</u>	<u>336,135,794</u>
Governmental activities, capital assets, net	<u>\$ 409,831,514</u>	<u>24,446,232</u>	<u>—</u>	<u>—</u>	<u>434,277,746</u>

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## Notes to Basic Financial Statements

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	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Land and land development costs	\$ 739,419	—	—	739,419
Total capital assets not being depreciated	739,419	—	—	739,419
Capital assets being depreciated:				
Buildings and improvements	20,084,609	50,307	—	20,134,916
Equipment	1,579,851	121,637	—	1,701,488
Total depreciable capital assets	21,664,460	171,944	—	21,836,404
Less accumulated depreciation for:				
Buildings	7,981,721	345,002	—	8,326,723
Equipment	913,617	66,435	—	980,052
Total accumulated depreciation	8,895,338	411,437	—	9,306,775
Depreciable capital assets, net	12,769,122	(239,493)	—	12,529,629
Business-type activities, capital assets, net	\$ 13,508,541	(239,493)	—	13,269,048

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Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 1,528,575
Economic development and planning	303,675
Community and rural development	1,914,212
Education and training	795,384
Natural resources	1,323,134
Public safety	4,727,719
Health and welfare	1,916,911
Culture and recreation	207,853
Transportation	3,431,066
Internal service funds	3,297,111
Total governmental activities depreciation expense	<u>\$ 19,445,640</u>
Business-type activities:	
Business and industrial development fund	\$ 316,446
Parks and recreation	83,887
Tribal ranch	11,104
Total business-type activities depreciation expense	<u>\$ 411,437</u>

**(5) Historical Financing to Tribal Entities**

The Nation periodically provides capital financing to tribal entities that are legally separate from the Nation and/or which are financially accountable to the Nation (note 1(a)). The Nation's financing to these tribal entities is expensed when paid and there is no obligation for repayment. The following table documents the Nation's cumulative financing to these entities as of September 30, 2014:

	<u>Tribal financing</u>	<u>Equity of entity (a)</u>
Navajo Tribal Utility Authority (NTUA)	\$ 17,603,364	137,844,396
Navajo Agricultural Products Industry (NAPI)	39,710,589	122,154,893
Navajo Nation Shopping Centers (NNSC)	15,304,462	28,162,209
Navajo Engineering and Construction Authority (NECA)	834,244	61,785,942
Navajo Arts and Crafts Enterprise (NACE)	1,044,346	6,837,443
Navajo Nation Hospitality Enterprise (NNHE)	83,515	7,953,268
Navajo Nation Oil and Gas	8,000,000	273,068,626
Native Broadcast Enterprises	545,229	1,420,706
Navajo Times	372,888	3,511,381
	<u>\$ 83,498,637</u>	<u>642,738,864</u>

(a) Equity of the entity is derived from the most recent audited financial statements available as of the entity's fiscal year-end preceding the respective year-end of the Nation.

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**(6) Interfund Activity**

The composition of interfund activity as of September 30, 2014 is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Grant Fund	Grant expenditures	\$ 34,058,262
			<u>\$ 34,058,262</u>

The amount payable from the Grant Fund to the General Fund is not expected to be paid within one year.

At September 30, 2014, the following funds have deficit net positions, as follows:

<u>Fund</u>	<u>Cash and cash equivalents</u>	<u>Net position</u>
Archaeology Services Fund	\$ (2,218,901)	(2,265,576)
Fourth of July Celebration Fund	(35,956)	(61,518)
Group Health Self-Insurance Fund	2,279,692	(3,917,450)
Air Transportation Fund	(3,507,736)	(1,613,713)
Navajo Trust Fund	(95,417)	(58,429)
Historical Trust Asset Mismanagement Litigation Trust Fund	(165,387)	(165,387)

To the extent that operations of these funds are not sufficient to cover the deficits, the General Fund or other funds will be required to provide financial support.

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Interfund transfers are summarized as follows:

	Transfers from			Total	Purpose
	General Fund	Sales Tax Trust Fund	Parks and Recreation Fund		
Transfers to:					
Contingency Management Fund	\$ 653,539	—	—	653,539	Refund contingencies
Capital Outlay Match Fund	2,000,000	—	—	2,000,000	Required transfer
Water Rights Fund	2,000,000	—	—	2,000,000	Required transfer
Historical Trust Asset Mismanagement Litigation Fund	1,500,000	—	—	1,500,000	Required transfer
Archaeology Services Fund	451,769	—	—	451,769	Operating
Parks and recreation	334,480	—	—	334,480	Operating
Air Transportation Fund	826,121	—	—	826,121	Operating
Business and Industrial Development Fund	2,997,982	857,184	—	3,855,166	Statutory allocation
4th of July Celebration Fund	—	—	329,840	329,840	Provide support
Annual Navajo Nation Fair	—	—	1,119,800	1,119,800	Provide support
Total	<u>\$ 10,763,891</u>	<u>857,184</u>	<u>1,449,640</u>	<u>13,070,715</u>	

**(7) Accounts Payable and Accrued Liabilities**

Accounts payable and accrued liabilities as of September 30, 2014 are as follows:

	Vendors	Salaries and benefits	Construction contract payables	Other	Total
Governmental activities:					
General Fund	\$ 72,190,388	5,172,878	898,002	5,498,630	83,759,898
Grant Fund	10,340,646	3,778,179	1,859,442	—	15,978,267
Permanent Fund	2,411,686	7,512	—	—	2,419,198
Aggregate nonmajor funds	2,113,138	255,180	646,889	1,528,999	4,544,206
Internal Service Funds	582,832	145,360	2,005	946,306	1,676,503
Total governmental activities	<u>\$ 87,638,690</u>	<u>9,359,109</u>	<u>3,406,338</u>	<u>7,973,935</u>	<u>108,378,072</u>
Business-type activities:					
Enterprise funds	<u>\$ 290,397</u>	<u>100,866</u>	<u>29,019</u>	<u>106,869</u>	<u>527,151</u>

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**(8) Long-Term Liabilities**

The Nation has four outstanding notes payable as of September 30, 2014. These notes payable are recorded in the governmental activities Section of the government-wide financial statements:

Note payable to bank – 5.09% (Tax-Exempt 1)	\$ 50,320
Note payable to bank – 5.20% (Taxable BAB 1)	54,119,085
Note payable to bank – effective rate 3.95% (Taxable BAB 2)	780,040
Note payable to bank – 1.5% plus LIBOR (NTUA)	<u>2,800,000</u>
Total payable	<u>\$ 57,749,445</u>

Maturities of the notes, all of which require future annual appropriation, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Tax-Exempt 1: 2015	\$ 50,320	2,105	52,425
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Taxable BAB 1: 2015	\$ 54,119,085	2,313,555	56,432,640
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Taxable BAB 2: 2015	\$ 780,040	38,963	819,003
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
NTUA:			
2015	\$ 457,316	40,453	497,769
2016	925,762	31,459	957,221
2017	940,805	16,119	956,924
2018	476,117	2,270	478,387
	<u>\$ 2,800,000</u>	<u>90,301</u>	<u>2,890,301</u>

On June 24, 2010, the Nation drew down \$55,000 on its line of credit with a bank. The tax-exempt note carries a fixed interest rate of 5.09%. The note requires monthly interest payments until January 1, 2012 at



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which time \$366 monthly payments of principal and interest are required. A final balloon payment is due July 1, 2015.

On December 31, 2010, the Nation drew down \$59,100,000 under the Build America Bonds (BAB) program on its line of credit with a bank. The taxable BAB (1) carries a stated interest rate of 5.2% and an effective rate of 3.38% after the BAB subsidy. The note requires monthly interest payments until January 1, 2012, at which time \$396,593 monthly payments of principal and interest are required. A final balloon payment is due July 1, 2015.

On June 24, 2010, the Nation drew down \$845,000 under the BAB program on its line of credit with a bank. The taxable BAB (2) carries a stated interest rate of 6.07% and an effective rate of 3.95% after the BAB subsidy. The note requires monthly interest payments until January 1, 2012 at which time \$6,088 monthly payments of principal and interest are required. A final balloon payment is due July 1, 2015.

On September 30, 2014, the Nation drew down \$2,800,000 on its unsecured general obligation credit facility with a bank. The note carries a fixed interest rate of 1.50% plus LIBOR. The note requires monthly interest payments until April 1, 2015, at which time approximately \$80,000 monthly payments of principal and interest are required until maturity on March 1, 2018. The proceeds from the note were transferred to one of the Nation's component units subsequent to year-end. The loan will be repaid with the proceeds received from NTUA.

Changes in long-term liabilities for the year ended September 30, 2014 were as follows:

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Governmental activities:					
Notes payable	\$ 56,875,242	2,800,000	1,925,797	57,749,445	55,406,761
Compensated absences	14,197,974	13,747,752	13,357,029	14,588,697	13,357,029
Net pension obligation	30,758,128	51,841,705	47,750,459	34,849,374	—
Claims and judgments	21,750,749	31,721,232	34,666,218	18,805,763	12,637,737
Governmental activities long-term liabilities	<u>\$ 123,582,093</u>	<u>100,110,689</u>	<u>97,699,503</u>	<u>125,993,279</u>	<u>81,401,527</u>
Business-type activities:					
Compensated absences	\$ 174,291	206,336	130,374	250,253	130,374
Business-type activities long-term liabilities	<u>\$ 174,291</u>	<u>206,336</u>	<u>130,374</u>	<u>250,253</u>	<u>130,374</u>

There were no long-term liabilities in either the General Fund or the Permanent Fund. The notes payable, compensated absences, net pension obligation, and claims and judgments in governmental activities will be funded through the General Fund.

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**(9) Retirement Plans**

***Required Disclosures for the Pension Plan Sponsor (reported under GASB 27)***

The Nation has established an agent, single employer defined-benefit retirement plan (Plan) for all employees of the Nation. All full-time, permanent employees over the age of 21 are eligible to participate in the Plan. Benefits vest after four years of service. Tribal participants who retire at or after the age of 60 (55 for Law Enforcement) with four years of credited service are entitled to an annual retirement benefit, payable monthly for life, in an amount equal to 2% of the average monthly salary for each month of their credited service. The Plan also provides death and disability benefits.

The Nation is the fiduciary for the Plan's assets. All assets of the Plan, including those contributed by the tribal entities, are reported in the Retirement Fund in the accompanying financial statements. The Plan document delegates the authority to establish and amend benefit provisions to the Navajo Nation Budget and Finance Committee upon recommendation of the Navajo Nation Retirement Committee. Separate stand-alone financial statements are not issued for the Plan.

The latest actuarial valuation was performed for the year beginning October 1, 2013. As of that date, the number of covered employees is as follows:

	<u><b>Total</b></u>
Retired participants	\$ 3,073
Terminated vested participants	4,510
Active participants	<u>4,615</u>
Total covered employees	\$ <u><u>12,198</u></u>

The Plan's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The contribution rate for the Plan's employee group as a whole has tended to remain level as a percentage of annual covered payroll. The Plan is entirely employer funded. The Plan's funding policy is to contribute the annual funding contribution as determined by the plan's actuaries plus an optional discretionary contribution to be determined annually by the Navajo Nation Council. For the year ended September 30, 2014, the required contribution rate approximated 30% of covered payroll. The Nation's 2014 contribution of \$47,750,000 was less than the annual required contribution of \$51,841,705.

As of October 1, 2013, the most recent actuarial valuation date, the Plan was 76.0% funded. The actuarial liability for benefits was approximately \$745.3 million, and the actuarial value of the assets was approximately \$566.1 million, resulting in a funding obligation of approximately \$179.2 million. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$179.7 million, and the ratio of the funding obligation to the covered payroll was 99.7%. The actuary revised the actuarial accrued liability calculation performed from an end of year model to a beginning of year valuation date with rollforward to end of year model. In addition, the discount rate of 8% used in the prior year was reduced to 7%. The projected covered payroll remained unchanged.

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The schedule of funding progress, presented as Required Supplementary Information in schedule 2, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

The following two schedules present the Plan's funding information and actuarial data for fiscal year 2014:

Schedule of funding progress (dollars in thousands)						
Actuarial valuation date	Actuarial value of plan assets (a)	Actuarial accrued liability (AAL) projected unit credit (b)	Unfunded AAL (surplus UAAL) (b-a)	Funded ratio (a/b)	Projected annual covered payroll (c)	UAAL as percentage of covered payroll ((b-a)/c)
October 1, 2013	\$ 566,133	745,288	179,155	76.0%	179,682	99.7%

Schedule of employer contributions (dollars in thousands)				
Period ended	Annual pension cost	Actual annual contribution	Percentage contributed	Net pension obligation
September 30, 2012	\$ 50,666	41,414	81.7%	36,971
September 30, 2013	45,174	51,387	113.8	30,758
September 30, 2014	51,842	47,750	92.1	34,849

The information presented in the preceding two schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as to the latest actuarial valuation follows:

Valuation date	10/1/2013
Actuarial-cost method	Projected unit cost
Asset-valuation method	Fair value
Unfunded actuarial accrued liability amortization	10-year level dollar
Actuarial assumptions:	
Investment rate of return	7.0%
Payroll growth rate – aged graded scale	3.5%–7.0%
Cost-of-living adjustments	0%

The September 30, 2014 annual pension cost consists of the following:

Annual required contribution	\$ 53,365,005
Interest on net pension obligation	2,153,069
Annual required contribution adjustment	(3,676,369)
	<u>\$ 51,841,705</u>

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***Required Disclosures for the Pension Plan (reported under GASB 67)***

**Investments**

The Plan follows the investment policies as described in footnote 2a above. The Retirement Committee for the plan has set the asset allocation as follows.

<u>Asset class</u>	<u>Target allocation</u>
Domestic equity	41%
International equity	12
Fixed income	22
Real estate	10
Global Tactical Asset Allocation	15

*Rate of return.* For the year ended September 30, 2014, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 10.76%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Net Pension Liability of the Nation**

The components of the net pension liability of the Plan at September 30, 2014, were as follows:

Total pension liability	\$ 837,618,395
Plan fiduciary net position	<u>(648,066,457)</u>
Nation's net pension liability	<u>\$ 189,551,938</u>
Plan fiduciary net position as a percentage of the total Pension liability	77.37%

*Actuarial assumptions.* The total pension liability was determined by an actuarial valuation as of October 1, 2013, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	0%
Salary increases	Age-graded scale 3.5%–7.0%
Investment rate of return	7%

All retirees in payment on October 1, 2014 were given a onetime 2% COLA increase in their benefit.

Retirement rates were group specific and based on age ranging from 45–65, with 100% by 65 for regular employees, 100% by age 55 for commissioned law enforcement, and 100% by age 55 or upon 15 years of service as a judge

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Mortality rates (healthy) were based on the 1983 Group Annuity Mortality table (sex distinct) (GAM83) and mortality rates (disabled) were based on the 1983 Pension Disability Mortality table (sex distinct).

While an actuarial experience study has not been conducted, the actuaries periodically review the plan experience for reasonableness of the GAM83 mortality rates.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense, and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. Best estimates of arithmetic real rates of return for each major asset class included in the pension plan's target asset allocation as of September 30, 2014 (see the discussion of the pension plan's investment policy) are summarized in the following table:

<u>Asset class</u>	<u>Long-term expected real rate of return</u>
Domestic equity	7.99%
International equity	9.04
Fixed income	4.50
Real estate	7.50
Global Tactical Asset Allocation	7.00

*Discount rate.* The discount rate used to measure the total pension liability was 7%. The projection of cash flows used to determine the discount rate assumed that contributions will be made at the actuarially determined contribution rates. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the net pension liability to changes in the discount rate.* The following presents the net pension liability of the Nation, calculated using the discount rate of 7%, as well as what the Nation's net pension liability would be if it were calculated using a discount rate that is one-percentage-point lower (6%) or one-percentage point higher (8%) than the current rate:

	<u>1% Decrease (6%)</u>	<u>Current Discount Rate (7%)</u>	<u>1% Increase (8%)</u>
Nation's net pension liability	\$ 287,762,250	189,551,938	106,821,450

***Nihibeeso Retirement Savings Plan***

The Nation sponsors the Nihibeeso Retirement Savings Plan, a defined-contribution 401(k) plan available to substantially all employees in which the employer matches 50% of the first 6% of salary contributed by the participant. Matching contributions become fully vested after four years of service. The employer may elect

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to discontinue matching contributions upon notice to participants; the employer also has the right to terminate the plan. Employer contributions were \$2,287,986 and employee contributions were \$5,373,315 for the year ended September 30, 2014.

**(10) Business Activity, Possessory Interest, Fuel Excise, Oil and Gas Severance, Sales, Tobacco Products, and Hotel Occupancy Taxes**

During 1978, the Navajo Tribal Code (Code) was amended by the Navajo Nation Council to provide for taxes on those owning property rights on the Navajo Reservation (possessory interest tax), or doing business on the Navajo reservation (business activity tax). The U.S. Supreme Court affirmed the legality of the taxes in *Kerr-McGee Corporation vs. Navajo Tribe of Indians*, on April 16, 1985. Significant provisions of these taxes are summarized as follows:

**(a) Business Activity Tax**

The business activity tax is imposed on those “engaged in trade, commerce, manufacture, power production, or any other productive activity, whether for profit or not, wholly or in part within the Navajo Nation.” The tax is assessed on the gross receipts from the sale of services performed and goods produced within the Nation. According to the Navajo Nation Tax Code, the tax rate shall not be less than 4% or more than 8%. The rate in effect from the initial imposition of the tax through September 30, 2014 has been 5%.

Beginning January 1, 2001, any amounts on which the Navajo sales tax has been paid may be excluded from gross receipts.

**(b) Possessory Interest Tax**

The possessory interest tax is imposed on owners of property rights under leases granted by the Nation, including the rights to the leased premises and underlying natural resources. The tax is assessed against the value of the possessory interest, excluding leasehold improvements. According to the Code, the annual tax rate shall not be less than 1% or more than 10%. The rate in effect from the initial imposition of the tax through September 30, 2014 has been 3%.

**(c) Fuel Excise Tax**

The fuel excise tax is assessed on each gallon distributed for sale within the Nation and used for the powering of motor vehicles. These funds are to be used to meet highway funding regulations and design standards, to improve overall road systems, to improve safety, and to meet community and economic development needs. According to the Code, the annual tax shall not be less than 10 cents per gallon or more than 25 cents per gallon. The tax rate in effect at September 30, 2014 is 18 cents per gallon of gasoline and 25 cents per gallon of diesel fuel.

**(d) Oil and Gas Severance Tax**

Effective October 1, 1985, a tax was imposed on those who are engaged in the severance of oil and natural gas products within the Nation. The taxes are assessed on the value of the products severed. According to the Code, the annual tax rate shall not be less than 3% or more than 8%. The rate in effect from the imposition of the tax through September 30, 2014 has been 4%.

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### (e) Sales Tax

Effective April 1, 2002, a sales tax was imposed on “those engaged in the sale or leasing of real or personal property of any kind, the sale of services of any kind, and any other productive activity of any kind, whether for profit or not, conducted wholly or partially within the Navajo Nation.” According to the Code, the annual tax rate shall not be less than 2% or more than 6%. The rate in effect at September 30, 2014 is 5%.

### (f) Tobacco Products Tax

The tobacco products tax is assessed on all tobacco products sold within the Nation. The tax rate in effect since its inception in 1996 ranges from 5 cents to 11 cents per cigarette or cigar and ranges from 2.8 cents to 22.3 cents per ounce on other types of tobacco products.

### (g) Hotel Occupancy Tax

The hotel occupancy tax is assessed on hotel room rentals within the Nation. The funds are to be used to improve tourism in the Nation. The tax rate in effect during the year ended September 30, 2014 was 8%.

The Tax Commission’s fiscal policy provides that 2% of tax collections be held for the potential payment of refunds for overpayment of tax, if any, which is recognized as revenue in the Tax Suspense Fund in the accompanying financial statements.

Tax revenues for the year ended September 30, 2014 are summarized as follows:

	General Fund	Navajo Tourism Fund	Navajo Roads Fund	Tax Suspense Fund	Total
Business activity tax	\$ 6,036,068	—	—	123,335	6,159,403
Possessory interest tax	34,479,694	—	—	736,681	35,216,375
Fuel excise tax	—	—	9,770,723	162,910	9,933,633
Oil and gas severance tax	9,846,740	—	—	200,954	10,047,694
Sales tax	35,827,627	—	—	944,551	36,772,178
Tobacco products tax	368,046	—	—	7,362	375,408
Hotel occupancy tax	—	1,852,588	—	37,808	1,890,396
Total tax revenues	\$ 86,558,175	1,852,588	9,770,723	2,213,601	100,395,087

The Nation also records net sales tax revenue collected from retail establishments on the Navajo reservation in the Sales Tax Trust Fund. This fund reported \$10,453,464 in tax revenue for the year ended September 30, 2014.

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**(11) Commitments and Contingent Liabilities**

The following are the significant financial commitments and contingent liabilities of the Nation at September 30, 2014, in addition to the items further described in notes 2, 8, 9, 12, and 13:

**(a) Guarantor**

The Nation has guaranteed an obligation of NTUA for a note payable to Economic Development Administration and Rural Economic and Community Development in the amount of \$185,091.

**(b) Various Taxes**

The liabilities of the Nation for various taxes imposed with respect to activities of the Nation off the reservation have not yet been conclusively established. Legal counsel for the Nation is unable to predict or express an opinion as to the ultimate liability, if any, of the Nation for any such taxes.

**(12) Litigation**

**(a) General**

In the normal course of operations, the Nation is a party to various claims and litigation, some of which have been referred to its insurance carriers. Included in these claims are matters involving the Hopi Tribe; damage suits against the Nation for alleged actions of its officials and employees; actions resulting in claims for compensation and/or destruction of property; and various other matters. Except as noted below, after consultation with outside legal counsel and the attorney general of the Nation, it is not possible to ascertain what ultimate liability, if any, the Nation may have as a result of the various claims. The Nation has, and will, continue to vigorously litigate these matters at both the trial and appellate court levels.

**(b) Matters Involving the Hopi Tribe**

The Nation and the Hopi Tribe have been and are involved in several lawsuits attempting to determine the rights and interests of the respective tribes in reservation lands established in northeastern Arizona. The reservations have been established through treaty, legislation, and executive orders of the United States. The litigation referred to below was authorized by a federal statute commonly known as the Navajo-Hopi Settlement Act, 25, U.S.C. § 640d et seq. The nature and status of this litigation are summarized as follows:

**1934 Act Litigation**

This litigation involves claims by the Hopi Tribe related to the division of the 1934 Act Reservation (48 Stat. 960). This act defined the exterior boundaries of the Navajo Reservation. At issue are: 1) what land the Hopi Tribe "possessed, occupied, or used" in 1934; 2) the partitioning of the land between the Hopi Tribe and the Nation; and 3) monetary claims by the Hopi Tribe against the Nation for benefit and advantage that the Nation and Navajo individuals may have received from the use of the land since June 14, 1934.

In 1978, the U.S. District Court dismissed the Hopi Tribe's monetary claims against the Nation. This decision was appealed and affirmed in 1980 by the U.S. Ninth Circuit Court of Appeals. The



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possession and partitioning claims were heard by the U.S. District Court for the District of Arizona. In September 1992, the Court entered its decision, awarding, and partitioning approximately 60,500 acres of the Navajo Reservation to the Hopi Tribe. On appeal, the U.S. Ninth Circuit Court of Appeals in September 1995 affirmed the partitioning, but remanded to the U.S. District Court for further proceedings on issues related to sacred sites. The court reversed the decision regarding the lifting of the "Bennett Freeze." In December 1995, the court issued an amended opinion clarifying the issues on remand. During July and September 1998, hearings before the U.S. District Court for the District of Arizona were held on the remaining issues. Once the U.S. District Court addresses, these remanded issues, further appeals are possible. Upon conclusion of the remanded issues, either the Nation or the Hopi Tribe may also pursue monetary claims against the other tribe related to the 1934 Act Reservation.

#### **1882 Executive Order Reservation Litigation**

This litigation involves claims by the Hopi Tribe that:

- The value of land partitioned to the Hopi Tribe was less than the value of land partitioned to the Nation when the former Joint Use Area was partitioned by the court in 1979, and the Hopi Tribe is entitled to payment to equalize the values (Owelly case).
- The United States and the Nation caused damages to the Hopi Tribe interest in the former Joint Use Area for which the Hopi Tribe is entitled to compensation (Damage case).
- The Hopi Tribe is entitled to one half of the fair value of grazing and agricultural use by Navajos in the former Joint Use Areas from September 1962 to the date of partition in 1979 (Use case).

On July 8, 1997, the U.S. Ninth Circuit Court of Appeals rendered its decision, in the Owelly, Use, and Damage cases.

In December 2000, the Nation and the Hopi Tribe resolved the Use and Damage cases through mediation. That resolution was completed in March and April 2001 by the Nation making a payment to the Hopi Tribe and the Hopi Tribe filing satisfaction of judgments in the U.S. District Court – Arizona. These cases are now completed.

In the Owelly case, the U.S. Ninth Circuit Court of Appeals remanded this case to the U.S. District Court. In the Owelly case, a motion for rehearing was filed by the Nation, but was denied by the Court of Appeals in late September 1997. In the Owelly case, there is no outstanding judgment; remand is for the U.S. District Court to consider the impact of improvements (not owned by the Nation) to the Navajo Partitioned Lands. In late September 2001, the U.S. District Court for the District of Arizona ruled in favor of the Nation and denied the Hopi claim for Owelly. Since that time, the Hopi have filed an appeal in the U.S. Court of Appeals for the Ninth Circuit. The appeal was briefed and argued by the Ninth Circuit.

In August 2002, the U.S. Court of Appeals for the Ninth Circuit rendered its decision in the Owelly case and again remanded the matter to the U.S. District Court for the District of Arizona for the purpose of determining whether and in what amount the Hopi Tribe should receive an award based on the increased value of Navajo land due to the existence of some seven trading posts that were included in the lands the Nation received when the Former Joint Use Area was partitioned in 1979. The Nation

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and Hopi Tribe each submitted their respective memoranda in October 2007. The U.S. District Court issued an order in September 2008. The Nation filed a motion for a new trial in October 2008. The U.S. District Court denied the motion by the Nation. The Nation appealed the denial to the U.S. Court of Appeals for the Ninth Circuit. This matter was settled by the Nation making a payment in September 2014. This case is now closed.

#### **Postpartition Rent Litigation**

This litigation involves claims by the Hopi Tribe against the Nation for the fair rental value of land partitioned by the U.S. District Court to the Hopi Tribe in 1979, which was used by Navajos after partitioning. The claims involve homesite, grazing, and farmland rentals. In July 1992, judgments against the Nation of approximately \$1.3 million were entered by the U.S. District Court related to the homesite and grazing claims. These judgments were appealed by the Nation. In 1996, the U.S. Ninth Circuit Court of Appeals upheld a judgment of \$586,060 against the Nation for homesites during the period 1979 through 1984 and remanded other issues. On December 30, 2009, the U.S. District Court for the District of Arizona rendered an opinion related to the homesite rentals 1985–1995, farmland rentals 1979–1995, and grazing rentals 1979–1995. The Nation in August 2010 made payments that satisfied the liability for the homesite rentals 1985–2000 and farmland rentals 1979–1995. In April 2011, the Nation made additional payments towards the liability related to farmland rentals 1986–2000 and grazing rentals 1979–2000 in an effort to stop the accrual of prejudgments and postjudgment interest. Rental amounts for 2001–2009 have been rendered by the Bureau of Indian Affairs and are pending affirmation.

#### **(c) Matters Related to Grants**

The Nation received notification of potential cost disallowances related to several grants. Cost disallowances could result from these notifications and subsequent proceedings. Management does not believe the potential settlements will be material to the financial statements.

#### **(d) Unasserted Claims**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. In certain instances, grantor agencies have questioned such costs, to which the Nation responded

### **(13) Risk Management**

The Nation is exposed to various risks of loss related to torts and civil rights; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and nonemployees; and natural disasters. The Navajo Nation Risk Management Department was established to manage, control, and minimize this risk. Through Risk Management, the Nation and certain enterprises of the Nation finance their uninsured risk of loss. This activity is accounted for in the Property and Casualty Self-Insurance (Risk Management) Fund, an internal service fund, in the accompanying financial statements. Under this program, the Risk Management Pool provides coverage for up to a maximum of \$500,000 for each incident. Risk Management purchases commercial insurance for claims in excess of coverage provided by the Risk Management Pool. Claims payable amounts have been estimated based upon a review of open claims and an estimate of unreported claims.

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September 30, 2014

The Nation and certain enterprises of the Nation have established a risk management plan codified under the Navajo Nation Code for workers' compensation. The activity is accounted for in the Workers' Compensation Self-Insurance Fund, an internal service fund, in the accompanying financial statements. During the year ended September 30, 2014, premiums of \$191,291 were paid into the fund to pay claim amounts and administrative costs. Claims payable amounts are estimated by the Nation based upon a review of open claims and an estimate of unreported claims.

The Nation and certain enterprises of the Nation have established an employee benefits program for health insurance. The activity is accounted for in the Group Health Self-Insurance Fund, an internal service fund, in the accompanying financial statements. Premiums are paid directly to a third-party administrator. The third-party administrator utilizes the premiums to pay claims and maintains excess premium payments as a reserve for future claims. An excess coverage insurance policy covers claims in excess of \$500,000.

Claims payable amounts are estimated by the third-party administrator based upon a review of open claims and an estimate of unreported claims.

The amounts and changes in the Nation's Risk Management program claims payable for the years ended September 30, 2014 and 2013 are as follows:

	2014	2013
Property and Casualty Self-Insurance (Risk Management) Fund:		
Claims payable, beginning of year	\$ 2,026,240	2,026,240
Current year claims and changes in estimates	4,633,902	2,441,336
Claim payments	(2,335,895)	(2,441,336)
Claims payable, end of year	<u>\$ 4,324,247</u>	<u>2,026,240</u>
Workers' Compensation Self-Insurance Fund:		
Claims payable, beginning of year	\$ 1,713,490	1,713,490
Current year claims and changes in estimates	2,081,036	1,974,613
Claim payments	(2,081,036)	(1,974,613)
Claims payable, end of year	<u>\$ 1,713,490</u>	<u>1,713,490</u>
Group Health Benefit Self-Insurance Fund:		
Claims payable, beginning of year	\$ 8,934,000	4,742,748
Current year claims and changes in estimates	24,352,755	33,497,005
Claim payments	(26,686,755)	(29,305,753)
Claims payable, end of year	<u>\$ 6,600,000</u>	<u>8,934,000</u>

## THE NAVAJO NATION

### Notes to Basic Financial Statements

September 30, 2014

#### **(14) Subsequent Event**

NNGE reported to the Nation in the fall of 2013 that it would be unable to make debt service payments scheduled for December 31, 2013 and April 30, 2014. Consequently, a forbearance agreement was executed on December 11, 2013, whereby the Nation agreed to forbear enforcement of remedies through April 30, 2014. The forbearance agreement suspended quarterly principal payments during the forbearance period and reduced the base interest rate to 9%, payable from excess cash flow after paying all operating expenses. There was also additional interest due at a rate of 4% after NNGE made debt service payments on other outstanding indebtedness. Any interest that was not paid on a current basis accrued as a liability of NNGE.

The agreement was amended on April 29, 2014, to extend forbearance through August 31, 2014. The agreement was then amended on August 31, 2014 and December 31, 2014, to extend forbearance through December 31, 2014 and March 31, 2015, respectively. On January 9, 2015, NNGE and the Nation agreed to an extension of the forbearance agreement to December 31, 2017. The accrued but unpaid interest was added to the principal balance of the Loan. During the period beginning January 9, 2015 through the 24-month period commencing on the effective date, the outstanding balance will carry an interest rate of 8% per annum. For the twelve-month period commencing at the beginning of the third year following the effective date, the outstanding balance will carry an interest rate of 8% per annum plus a contingent interest of 1% payable from available cash flow. Commencing on July 1, 2016, principal payments are due based on a 30-year amortization schedule. The repayment terms of the Note revert to the terms in the 2012 Credit Agreement if the forbearance agreement is not extended or the 2012 Credit Agreement is not refinanced. The 2012 Credit Agreement requires interest to be paid at a rate of between 10% to 13% based on the leverage ratio of NNGE; principal payments based on a 15-year amortization schedule; and has a maturity date of April 1, 2020.

## THE NAVAJO NATION

## General Fund

Year ended September 30, 2014

Schedule of Revenues, Expenditures, and Changes in  
Fund Balance – Budget to Actual – General Fund

(Unaudited Required Supplementary Information)

				September 30, 2014	Budget variance favorable (unfavorable)
	Original budget	Final budget	Actual (budgetary basis)	Designated fund balance carryover	
<b>Revenues</b>					
Natural resource revenue:					
Oil and gas	\$ 50,236,000	50,236,000	60,580,712	—	10,344,712
Mining	54,489,000	54,489,000	56,113,319	—	1,624,319
Tax revenue, net (note 10)	70,756,000	70,756,000	86,558,175	—	15,802,175
Land, buildings, business site, and right-of-way revenue	56,631,000	56,631,000	62,347,414	—	5,716,414
Interest and dividends	1,900,000	1,900,000	1,058,048	—	(841,952)
Net decrease in fair value of investments	—	—	(1,789)	—	(1,789)
Other revenue	900,000	900,000	4,884,261	—	3,984,261
Transfer to permanent fund	(28,189,000)	(28,189,000)	(32,430,524)	—	(4,241,524)
Transfer of current year revenues (expenses)	(25,294,000)	(25,294,000)	(25,209,208)	—	84,792
<b>Total revenues</b>	<b>181,429,000</b>	<b>181,429,000</b>	<b>213,900,408</b>	<b>—</b>	<b>32,471,408</b>
<b>Expenditures</b>					
General government	89,371,561	104,090,715	65,042,173	727,566	38,320,976
Economic development and planning	5,171,357	5,642,046	4,578,564	119,291	944,191
Community and rural development	42,139,346	64,747,926	60,771,851	457,261	3,518,814
Education and training	20,196,262	24,245,316	21,867,993	—	2,377,323
Natural resources	19,710,049	29,424,383	23,676,771	355,527	5,392,085
Public safety	9,914,111	11,240,366	16,109,313	211,197	(5,080,144)
Health and welfare	18,803,314	20,424,124	16,716,870	55,008	3,652,246
Culture and recreation	1,431,833	1,494,178	1,562,113	—	(67,935)
<b>Total expenditures</b>	<b>206,737,833</b>	<b>261,309,054</b>	<b>210,325,648</b>	<b>1,925,850</b>	<b>49,057,556</b>
<b>Other financing sources (uses)</b>					
Transfers	(5,500,000)	(5,500,000)	(10,763,891)	—	(5,263,891)
<b>Total other financing uses</b>	<b>(5,500,000)</b>	<b>(5,500,000)</b>	<b>(10,763,891)</b>	<b>—</b>	<b>(5,263,891)</b>
<b>Extraordinary item</b>					
Claims settlement	—	—	554,000,000	—	554,000,000
Fees associated with claims settlement	—	—	(62,956,710)	—	(62,956,710)
<b>Total extraordinary item</b>	<b>—</b>	<b>—</b>	<b>491,043,290</b>	<b>—</b>	<b>491,043,290</b>
Net change under budgetary basis	\$ (30,808,833)	(85,380,054)	483,854,159	(1,925,850)	567,308,363
Reconciliation of budgetary basis net change to net change from Schedule 4:					
Add beginning encumbrances			9,358,245		
Less ending encumbrances			(10,212,465)		
<b>Modified budget accrual net change in fund balance</b>			<b>\$ 482,999,939</b>		

See accompanying independent auditors' report

## THE NAVAJO NATION

Pension Required Supplementary Information

Year ended September 30, 2014

Schedule of Funding Progress (dollars in thousands)–  
(Unaudited Required Supplementary Information)

Actuarial valuation date	Actuarial value of plan assets (a)	Actuarial accrued liability (AAL) projected unit credit (b)	Unfunded AAL (surplus UAAL) (b-a)	Funded ratio (a/b)	Projected annual covered payroll (c)	UAAL as percentage of covered payroll ((b-a)/c)
October 1, 2012	\$ 385,254	599,850	214,596	64.2%	175,032	122.6%
October 1, 2013	566,171	667,600	101,429	84.8%	179,682	56.4%
October 1, 2014	566,133	745,288	179,155	76.0%	179,682	99.7%

See accompanying independent auditors' report.

## THE NAVAJO NATION

## Pension Required Supplementary Information

Year ended September 30, 2014

Schedule of Changes in the Net Position Liability and Related Ratios (dollars in thousands) –  
(Unaudited Required Supplementary Information)

	2014	2013	2012	2011	2010
Total pension liability:					
Service cost	\$ 14,222				
Interest	54,812				
Changes of benefit terms	5,300				
Differences between expected and actual experience	—				
Changes of assumptions	—				
Benefit payments, including refunds of member contributions	(28,415)				
Net change in total pension liability	45,919				
Total pension liability – beginning	791,699				
Total pension liability – ending (a)	<u>\$ 837,618</u>				
Plan fiduciary net position:					
Contributions – employer	\$ 47,750				
Contributions – member	—				
Net investment income	66,630				
Benefit payments, including refunds of member contributions	(28,415)				
Administrative expense	(4,032)				
Other	—				
Plan fiduciary net position – beginning	81,933				
Plan fiduciary net position – ending (b)	566,133				
Nation's net pension liability – ending (a) – (b)	<u>\$ 648,066</u>				
Plan fiduciary net position as a percentage of the total pension liability	<u>\$ 189,552</u>				
Covered-employee payroll	77.37%				
Nation's net position liability as a percentage of covered-employee payroll	\$ 179,682				
	105.49%				

Notes to schedule:

*Benefit Changes* : All retirees in payment on October 1, 2014 were given a one time 2% COLA increase to their benefit.*Change of Assumptions* : Based on a review of the plan performance the discount rate was changed from 8% to 7% for the fiscal year 2014 valuation.

See accompanying independent auditors' report.

## THE NAVAJO NATION

## Pension Required Supplementary Information

Year ended September 30, 2014

Schedule of the Navajo Nation's Contributions (dollars in thousands) --  
(Unaudited Required Supplementary Information)

Fiscal year ended	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered- employee payroll	Contributions as a percentage of covered- employee payroll
2014	49,723	47,750	1,973	179,682	27%
2013					
2012					
2011					
2010					
2009					
2008					
2007					
2006					
2005					

(Historical information prior to implementation of GASB 67 is not required)

## Notes to schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of September 30, two years prior to the end of the fiscal year in which contributions are reported

## Methods and assumptions used to determine contribution rates:

Actuarial cost method  
Amortization method  
Remaining amortization period  
Asset valuation method

Entry Age Normal, Level Percent of Pay  
Straight Line  
3.705  
Fair value

## Actuarial assumptions:

Inflation  
Salary increases  
Investment rate of return  
Retirement age

0%  
Age-graded scale 3.5% – 7.0%  
7%

Group-specific rates based on age ranging from 45–65, with 100% by 65 for regular employees, 100% by age 55 for commissioned law enforcement and 100% by age 55 or upon 15 years of service as a judge.

## Mortality:

Healthy  
Disabled  
1983 Group Annuity Mortality table (sex distinct)  
1983 Pension Disability Mortality table (sex distinct)

See accompanying independent auditors' report.



## THE NAVAJO NATION

## Pension Required Supplementary Information

Year ended September 30, 2014

Schedule of Investment Returns (dollars in thousands) –  
(Unaudited Required Supplementary Information)

Fiscal year ended	Annual money-weighted rate of return, net of investment expense
2014	10.76
2013	(Historical information prior to implementation of GASB 67 is not required)
2012	
2011	
2010	
2009	
2008	
2007	
2006	
2005	

See accompanying independent auditors' report.

**THE NAVAJO NATION**  
Combining Balance Sheet – General Fund  
September 30, 2014

Assets	General Fund	Navajo Dam Escrow Fund	Navajo Rehabilitation Trust Fund	Oil and Gas Development Fund	Navajo Nation Reforestation Fund	Capital Outlay Match Fund	Historical Trust Asset Mismanagement Litigation Trust Fund	License Plate Revenue Fund	Total General Funds
Cash and cash equivalents	\$ 77,421,800	3,245,249	4,123,244	783,764	629,326	45,906	(165,387)	401,183	86,485,085
Investments (including \$5,482,313 of pledged securities)	62,870,301	—	—	—	—	11,959,397	—	—	74,829,698
Accounts receivable, net	1,941,199	—	79,364	—	—	—	—	—	2,020,563
Accrued interest receivable	356,658	—	283,425	41	—	4,920	—	—	645,014
Claims settlement receivable	554,000,000	—	—	—	—	—	—	—	554,000,000
Note receivable	—	—	3,364,842	—	—	—	—	—	3,364,842
Due from other funds	34,058,262	—	—	—	—	—	—	—	34,058,262
Restricted assets	517,838	—	—	—	—	—	—	—	517,838
<b>Total assets</b>	<b>\$ 731,166,058</b>	<b>3,245,249</b>	<b>7,850,875</b>	<b>783,805</b>	<b>629,326</b>	<b>12,010,223</b>	<b>(165,387)</b>	<b>401,183</b>	<b>755,921,332</b>
<b>Liabilities and Fund Balances</b>									
Liabilities:									
Accounts payable	\$ 69,905,015	—	59,181	—	—	—	—	—	69,964,196
Accrued liabilities	13,643,833	—	12,749	—	8,738	130,382	—	—	13,795,702
Unearned revenue	3,473,462	—	1,060,826	—	—	—	—	—	4,534,288
<b>Total liabilities</b>	<b>87,022,310</b>	<b>—</b>	<b>1,132,756</b>	<b>—</b>	<b>8,738</b>	<b>130,382</b>	<b>—</b>	<b>—</b>	<b>88,294,186</b>
Fund balances:									
Nonspendable:									
NNGIE long-term receivables	—	—	3,364,842	—	—	—	—	—	3,364,842
Spendable:									
Restricted for:									
Restricted assets	517,838	—	—	—	—	—	—	—	517,838
Economic development loans	5,404,242	3,245,249	—	—	—	—	—	—	8,649,491
Other capital projects	—	—	3,353,277	—	—	—	—	—	3,353,277
Committed for:									
Other capital projects	—	—	—	—	—	11,879,841	(165,387)	—	11,879,841
Other purposes	1,925,850	—	—	783,805	620,588	—	—	401,183	3,566,039
Assigned to:									
Other purposes	11,616,733	—	—	—	—	—	—	—	11,616,733
Unassigned	—	—	—	—	—	—	—	—	—
General Fund	624,679,085	—	—	—	—	—	—	—	624,679,085
<b>Total fund balances</b>	<b>644,143,748</b>	<b>3,245,249</b>	<b>6,718,119</b>	<b>783,805</b>	<b>620,588</b>	<b>11,879,841</b>	<b>(165,387)</b>	<b>401,183</b>	<b>667,627,146</b>
<b>Total liabilities and fund balances</b>	<b>\$ 731,166,058</b>	<b>3,245,249</b>	<b>7,850,875</b>	<b>783,805</b>	<b>629,326</b>	<b>12,010,223</b>	<b>(165,387)</b>	<b>401,183</b>	<b>755,921,332</b>

See accompanying independent auditors' report

**THE NAVAJO NATION**  
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
General Fund

Year ended September 30, 2014

Revenues	General Fund	Navajo Dam Escrow Fund	Navajo Rehabilitation Trust Fund	Oil and Gas Development Fund	Navajo Nation Reforestation Fund	Capital Outlay Match Fund	Historical Trust Asset Mismatch Litigation Trust Fund	License Plate Revenue Fund	Total General Funds
Natural resource revenue:									
Oil and gas:									
Mineral:	\$ 60,580,712	—	—	—	—	—	—	—	60,580,712
Tax revenue, net:	56,113,319	—	—	—	—	—	—	—	56,113,319
Land, buildings, business sale, and right-of-way revenue	86,558,175	—	—	—	—	—	—	—	86,558,175
Interest and dividends	62,347,414	—	—	—	—	—	—	—	62,347,414
Net decrease in fair value of investments	1,058,048	—	313,666	238	—	5,197	—	—	1,377,149
Gross revenue	(1,789)	—	—	—	—	—	—	—	(1,789)
Statutory allocation to permanent fund	4,884,261	—	—	—	34	—	—	42,313	4,926,608
Statutory allocation of current year revenues	(32,430,524)	—	—	—	—	—	—	—	(32,430,524)
Total revenues	213,600,408	—	313,666	238	34	5,197	—	42,313	214,261,856
Expenditures									
Current:									
General government:	60,465,597	—	—	—	—	—	4,609	—	60,470,206
Economic development and planning	4,627,428	—	—	—	—	—	—	—	4,655,033
Community and rural development	61,132,135	27,605	296,145	—	—	11,400	—	—	61,439,680
Education and training	20,928,010	—	—	—	—	—	—	—	20,928,010
Natural resources	23,232,462	—	—	—	41,343	—	—	—	23,273,805
Public safety	15,460,272	—	—	—	—	—	—	—	15,460,272
Health and welfare	16,785,525	—	—	—	—	—	—	—	16,785,525
Culture and recreation	1,466,429	—	—	—	—	—	—	—	1,466,429
Capital outlay	7,055,350	—	384,187	—	10,895	—	—	—	7,450,432
Debt service - principal	26,660	—	—	—	—	—	—	—	26,660
Total expenditures	211,179,868	27,605	680,332	—	52,238	11,400	4,609	—	211,956,052
Excess (deficit) of revenues over expenditures	2,720,540	(27,605)	(366,666)	238	(52,204)	(6,203)	(4,609)	42,313	2,305,804
Other Financing Sources (Uses)									
Transfers	(10,763,891)	—	—	—	—	—	—	—	(10,763,891)
Total other financing sources (uses)	(10,763,891)	—	—	—	—	—	—	—	(10,763,891)
Extraordinary item									
Claims settlement	554,000,000	—	—	—	—	2,000,000	1,500,000	—	554,000,000
Fees associated with claims settlement	(62,956,710)	—	—	—	—	2,000,000	1,500,000	—	(62,956,710)
Total extraordinary item	491,043,290	—	—	—	—	—	—	—	491,043,290
Net change in fund balances (Exhibit E)	482,989,939	(27,605)	(366,666)	238	(52,204)	1,993,797	1,495,391	42,313	486,085,203
Fund balance, beginning of year	161,143,809	3,272,854	7,084,785	783,567	672,792	9,886,044	(1,660,778)	358,870	181,541,943
Fund balance, end of year	\$ 644,143,748	3,245,249	6,718,119	783,805	620,588	11,879,841	(165,387)	401,183	667,627,146

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
Combining Balance Sheet  
Navajo Governmental Funds  
September 30, 2014

	Special revenue										Debt Service		Permanent Government	
	Scholarship Fund	Navajo Tourism Fund	Navajo Nation Environmental Protection Agency Fund	Tax Suspense Fund	Water Rights Fund	Navajo Nation Roads Fund	Land Acquisition Fund	Gaming Development Fund	Gaming Revenue Distribution Fund	Judicial Public Safety Facilities Fund	DPS Gaming Fund	NTUA Key Bank Loan Fund	NTUA Key Building Fund	Total
<b>Assets</b>														
Cash and cash equivalents	\$ 13,410,408	\$ 7,077,921	\$ 3,417,675	\$ 664,311	\$ 2,747,043	\$ 4,704,316	\$ 23,486,863	\$ 7,803,608	\$ 2,581,463	\$ 7,317,939	\$ 1,070,000	\$ 2,623,216	\$ 2,747,908	\$ 38,238,161
Investments	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Accounts receivable	44,174,528	33,292	5,229,117	15,054,590	7,307,306	34,042,653	73,228,981	—	—	\$ 51,061,580	—	—	\$ 7,341,060	\$ 287,439,813
Prepaid expenses	530,297	—	—	—	15,000	—	3,666,666	—	—	—	—	—	—	\$ 50,082
Due from other fund	—	572	466	18,984	1,140	10,675	—	—	—	6,723	—	—	—	\$ 4,629,388
Due receivable	4,882,459	—	—	—	—	—	35,692,822	—	—	—	—	—	2,762,010	\$ 48,132,297
<b>Total receivables</b>	\$ 5,421,730	\$ 33,664	\$ 466	\$ 18,984	\$ 16,140	\$ 10,675	\$ 38,889,515	—	—	\$ 6,723	—	—	\$ 8,099,270	\$ 52,814,087
<b>Total assets</b>	\$ 63,006,666	\$ 7,411,585	\$ 8,647,258	\$ 15,257,885	\$ 10,070,479	\$ 33,349,012	\$ 135,305,359	\$ 7,803,608	\$ 2,581,463	\$ 45,750,364	\$ 1,070,000	\$ 2,623,216	\$ 68,785,168	\$ 403,492,663
<b>Liabilities and Fund Balance</b>														
Accounts payable and accrued expenses	\$ 1,116,202	\$ 11,860	\$ 44,466	—	\$ 175,261	\$ 1,302,431	\$ 60,768	\$ 392,805	\$ 135,863	\$ 1,053,335	—	—	\$ 89,275	\$ 4,341,266
Due to other funds (note 6)	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total liabilities</b>	\$ 1,116,202	\$ 11,860	\$ 44,466	—	\$ 175,261	\$ 1,302,431	\$ 60,768	\$ 392,805	\$ 135,863	\$ 1,053,335	—	—	\$ 89,275	\$ 4,341,266
<b>Fund balance</b>														
Nonspendable:	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Permanent fund principal	4,882,459	—	—	—	—	—	\$ 35,692,822	—	—	—	—	—	\$ 7,950,026	\$ 77,950,026
Special fund principal	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Reimbursed to:														
Education	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Special projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Committed for	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other capital projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other purposes	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total fund balance</b>	\$ 61,870,464	\$ 7,229,725	\$ 8,602,852	\$ 15,257,885	\$ 9,895,218	\$ 32,046,581	\$ 99,751,769	\$ 7,410,803	\$ 2,445,603	\$ 44,555,029	\$ 1,070,000	\$ 2,623,216	\$ 68,035,893	\$ 395,947,857
<b>Total liabilities and fund balance</b>	\$ 63,006,666	\$ 7,411,585	\$ 8,647,258	\$ 15,257,885	\$ 10,070,479	\$ 33,349,012	\$ 135,305,359	\$ 7,803,608	\$ 2,581,463	\$ 45,750,364	\$ 1,070,000	\$ 2,623,216	\$ 68,785,168	\$ 403,492,663

See accompanying independent auditors' report

**THE NAVAJO NATION**  
 Confirming Statement of Revenues, Expenditures, and Changes in Fund Balances  
 Navajo Governmental Funds  
 Year ended September 30, 2014

	Special revenue										Debt Service		Permanent Chapter Government Building Fund	Total
	Scholarship Fund	Navajo Tourism Fund	Navajo Nation Environmental Agency Fund	Tax Successor Fund	Water Rights Fund	Navajo Nation Recreation Fund	Land Acquisition Fund	Gaming Development Fund	Gaming Revenue Distribution Fund	Judicial Public Safety Fund	DPS Gaming Fund	NTUA Key Bank Loan Fund		
Revenues														
Tribal revenue	—	1,852,588	—	2,213,601	—	9,776,723	—	—	—	—	—	—	—	13,846,912
Interest and dividends	1,722,277	2,305	2,344	6,273	4,050	36,093	6,759,731	—	—	26,022	—	—	2,559,676	11,124,171
Insurance (deductions) in fair value of investments	—	—	—	—	—	—	6,065,461	—	—	—	—	—	1,706,840	11,131,041
Other revenue	3,358,740	24,559	2,054,865	—	1,110,344	18,100	65,285	7,553,396	—	1,117,638	1,070,000	—	—	13,806,534
Statutory allocation to permanent fund	792,328	—	—	—	—	—	—	—	—	—	—	—	—	—
Statutory allocation of current year revenue	—	(226,492)	—	—	—	(11,172,487)	—	—	—	—	—	—	—	(1,198,979)
Total revenues	6,852,351	—	—	2,219,874	—	(86,242)	5,809,569	7,553,396	—	7,710,318	1,070,000	—	—	19,286,921
Expenditures	12,231,606	1,652,960	2,057,209	2,219,874	1,114,393	8,066,187	18,700,046	—	—	8,854,613	—	—	4,266,516	67,786,800
General government	—	—	—	—	—	—	—	7,519,238	860,468	—	—	—	—	8,379,706
Commitments and trust development	—	—	—	—	2,545,448	—	284,693	—	—	—	—	176,784	2,176,324	5,183,449
Education and training	4,832,399	—	—	—	—	—	—	—	—	—	—	—	—	4,832,399
Hazard mitigation	—	—	1,509,051	—	—	—	—	—	—	—	—	—	—	1,509,051
Public safety	—	—	—	—	—	—	—	—	—	3,183,830	—	—	—	3,183,830
Public works	—	796,548	—	—	—	—	—	—	—	—	—	—	—	796,548
Transportation	—	—	—	—	—	2,194,255	—	—	—	—	—	—	—	2,194,255
Training and recreation	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital outlay	—	18,004	35,774	—	—	3,824,055	290,541	—	—	6,179,312	—	—	—	10,347,686
Debt service – principal	—	—	—	—	—	—	—	—	—	1,899,137	—	—	—	1,899,137
Total expenditures	4,832,399	814,552	1,544,815	—	2,545,448	6,218,508	575,234	7,519,238	860,468	11,262,279	—	176,784	2,176,524	38,525,949
Excess (deficiency) of revenues over expenditures	7,999,297	838,408	512,404	2,219,874	(1,431,057)	1,847,879	18,124,812	34,158	(860,468)	(2,407,666)	1,070,000	(176,784)	2,089,992	29,260,851
Long-term debt issued	—	—	—	—	—	—	—	—	—	—	—	2,800,000	—	2,800,000
Transfers	—	—	—	—	2,000,000	—	—	—	—	—	—	—	—	2,000,000
Net change in fund balance	7,999,297	838,408	512,404	2,219,874	568,945	1,847,879	18,124,812	34,158	(860,468)	(2,407,666)	1,070,000	2,623,216	2,089,992	34,960,851
Fund balance, beginning of year	54,471,167	4,801,317	8,090,448	13,538,011	9,326,773	30,198,702	117,119,779	7,376,635	3,906,068	46,952,695	—	—	66,605,901	361,887,096
Fund balance, end of year	61,870,464	5,729,725	8,602,852	15,757,885	9,895,718	32,046,581	135,244,591	7,410,803	2,445,600	44,555,029	1,070,000	2,623,216	68,695,893	395,947,857

See accompanying independent auditor's report.

**THE NAVAJO NATION**  
 Combining Statement of Net Position  
 Enterprise Funds  
 September 30, 2014

	Business and Industrial Development Fund	Loan Fund	Employee Housing	Archaeology Services	Parks and Recreation	Fish and Wildlife	Navajo Nation Code Fund	Navajo Transit Fund	Livestock Custody Fund	Fourth of July Celebration Fund	Annual Navajo Nation Fair Fund	Tribal Nation Ranch Fund	Total
<b>Current assets:</b>													
Cash and cash equivalents	\$ 10,631,345	6,087,984	695,068	(2,218,901)	11,238,857	1,565,093	120,924	145,960	375,838	(35,956)	18,473	942,973	29,558,258
Investments	6,908,129	—	—	—	—	—	—	—	—	—	—	—	6,908,129
Receivables:													
Accrued interest receivable, net	618	157	—	—	—	—	—	—	—	—	—	—	775
Accounts receivable	13,690	—	8,000	—	—	—	—	—	5,771	—	25,000	—	52,421
Current portion of notes receivable	265,479	3,859,838	—	—	—	—	—	—	—	—	—	—	4,126,317
Total receivables	280,747	3,859,995	8,000	—	—	—	—	—	5,771	—	25,000	—	4,179,513
Total current assets	17,820,821	9,947,979	703,068	(2,218,901)	11,238,857	1,565,093	120,924	145,960	381,609	(35,956)	43,473	942,973	40,645,900
<b>Noncurrent assets:</b>													
Receivables:													
Notes receivable, net	679,832	7,338,975	—	—	—	—	—	—	—	—	—	—	8,018,807
Total noncurrent assets	679,832	7,338,975	—	—	—	—	—	—	—	—	—	—	8,018,807
Capital assets:													
Land and land development costs	710,419	—	2,544,119	—	6,101,118	—	—	—	—	—	—	—	738,419
Buildings	114,889,679	—	40,508	—	946,878	87,780	—	115,484	40,670	—	—	274,604	1,701,488
Equipment	108,164	—	—	—	7,047,996	87,780	—	115,484	40,670	—	—	274,604	22,575,823
Total capital assets	12,427,262	—	2,584,627	—	1,152,685	50,160	—	16,212	10,051	—	—	220,478	9,306,775
Accumulated depreciation	5,272,562	—	2,584,627	—	5,895,111	37,620	—	97,272	30,019	—	—	54,126	13,269,048
Capital assets, net	7,154,700	—	—	—	—	—	—	—	—	—	—	—	4,199,577
Other assets	4,199,577	—	—	—	—	—	—	—	—	—	—	—	4,199,577
Total resources available	12,034,109	7,338,975	—	—	5,895,311	37,620	—	97,272	30,019	—	—	54,126	25,487,412
Total assets	\$ 29,854,910	\$ 17,286,954	\$ 703,068	\$ (2,218,901)	\$ 17,124,168	\$ 1,602,713	\$ 120,924	\$ 243,232	\$ 411,628	\$ (35,956)	\$ 43,473	\$ 997,099	\$ 66,133,332
<b>Liabilities and Net Position</b>													
<b>Current liabilities:</b>													
Accounts payable	\$ 1,691	180,885	56,451	—	20,262	1,032	—	—	375	938	3,161	9,689	244,804
Compensated absences	—	—	15,478	24,319	58,062	4,514	—	—	—	—	10,867	11,595	130,574
Accrued liabilities	35,804	30,738	15,187	—	97,075	13,625	—	—	—	24,604	7,395	6,419	282,347
Total current liabilities	37,495	239,617	81,111	24,319	173,739	19,971	—	—	375	35,562	21,723	27,613	657,525
<b>Noncurrent liabilities:</b>													
Compensated absences	—	6,798	14,223	22,356	51,021	4,884	—	—	—	—	9,960	10,577	119,849
Total noncurrent liabilities	—	6,798	14,223	22,356	51,021	4,884	—	—	—	—	9,960	10,577	119,849
Total liabilities	37,495	246,415	95,334	46,675	224,760	24,855	—	—	375	35,562	31,713	38,190	777,374
<b>Net position</b>													
Net investment in capital assets	7,154,700	—	—	—	5,895,311	37,620	—	97,272	30,019	—	—	—	13,269,048
Unrestricted	22,662,715	17,040,539	601,734	(2,265,576)	11,004,007	1,540,258	120,924	145,960	381,234	(61,518)	11,760	904,783	52,086,910
Total net position	29,817,415	17,040,539	601,734	(2,265,576)	16,899,008	1,577,878	120,924	243,232	411,253	(61,518)	11,760	938,939	65,355,958
Total liabilities and net position	\$ 29,854,910	\$ 17,286,954	\$ 703,068	\$ (2,218,901)	\$ 17,124,168	\$ 1,602,713	\$ 120,924	\$ 243,232	\$ 411,628	\$ (35,956)	\$ 43,473	\$ 997,099	\$ 66,133,332

See accompanying independent auditors' report

**THE NAVAJO NATION**  
 Combining Statement of Revenues, Expenses, and Changes in Net Position  
 Enterprise Funds

Year ended September 30, 2014

	Business and Industrial Development Fund	Loan Fund	Employee Housing	Archaeology Services	Parks and Recreation	Fish and Wildlife	Navajo Native Code Fund	Navajo Tribal Fund	Livestock Control Fund	Fourth of July Celebration Fund	Annual Navajo Nation Fair Fund	Tribal Revenue Fund	Total
<b>Operating revenues:</b>													
Personal income:													
Interest income—notes receivable:	299,104	—	877,864	—	—	—	—	—	—	—	—	—	1,176,968
Charges for services:	34,869	982,066	—	—	8,540,380	826,562	2,707	—	—	—	1,000,000	1,221,362	11,008,905
Other income:	3,825	202,786	64,766	161,698	138,202	—	—	3,281	161,850	149,869	17,126	—	1,251,704
<b>Total operating revenues</b>	<b>1,074,348</b>	<b>1,184,852</b>	<b>942,630</b>	<b>161,698</b>	<b>8,687,582</b>	<b>826,562</b>	<b>2,707</b>	<b>3,281</b>	<b>161,850</b>	<b>149,869</b>	<b>1,017,126</b>	<b>1,221,362</b>	<b>15,404,037</b>
<b>Operating expenses:</b>													
<b>Personnel:</b>	<b>66,638</b>	<b>701,740</b>	<b>454,837</b>	<b>515,517</b>	<b>2,130,707</b>	<b>187,328</b>	<b>—</b>	<b>5,044</b>	<b>—</b>	<b>—</b>	<b>318,609</b>	<b>316,724</b>	<b>4,697,154</b>
Travel, per diem, and vehicle:	2,240	56,052	55,193	31,430	359,635	222,602	—	4,374	3,750	2,076	18,852	62,028	818,252
Supplies:	36,667	67,975	74,918	6,981	207,591	87,466	224	6,358	21,599	6,535	65,996	39,538	621,848
Contractual service:	—	—	—	—	14,065	122,435	—	—	—	—	726,032	—	862,532
Lease, telephone, and utilities:	2,633	16,364	35,020	18,605	166,952	10,835	—	789	20,905	4,517	64,852	190,871	532,345
Repairs and maintenance:	95,205	12,738	171,130	—	112,014	1,185	—	—	13,900	840	19,590	—	425,077
Provision (recover) for bad debts:	164,079	282,756	—	1,380	—	—	—	—	—	—	—	—	486,610
Depreciation expense:	316,446	—	—	—	83,887	—	—	—	—	—	—	—	411,437
Insurance premiums:	—	987	644	608	—	240	—	—	—	23	624	1,104	1,514
<b>Other expense:</b>	<b>113,425</b>	<b>31,186</b>	<b>9,547</b>	<b>1,438</b>	<b>799,809</b>	<b>8,855</b>	<b>—</b>	<b>7,358</b>	<b>—</b>	<b>261,953</b>	<b>79,010</b>	<b>39,583</b>	<b>1,352,141</b>
<b>Total operating expenses</b>	<b>795,353</b>	<b>1,169,798</b>	<b>801,279</b>	<b>575,979</b>	<b>3,874,714</b>	<b>640,946</b>	<b>224</b>	<b>24,598</b>	<b>60,154</b>	<b>275,944</b>	<b>1,293,565</b>	<b>698,586</b>	<b>10,210,910</b>
<b>Operating income (loss), net</b>	<b>278,995</b>	<b>(14,946)</b>	<b>141,351</b>	<b>(414,281)</b>	<b>4,812,868</b>	<b>185,616</b>	<b>2,483</b>	<b>(21,117)</b>	<b>101,696</b>	<b>(125,975)</b>	<b>(276,359)</b>	<b>522,806</b>	<b>5,193,127</b>
<b>Nonoperating revenues:</b>													
Interest and dividends:	5,753	3,454	—	—	—	—	—	—	—	—	—	—	9,207
<b>Total nonoperating revenues</b>	<b>5,753</b>	<b>3,454</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>9,207</b>
<b>Nonoperating income, net</b>	<b>5,753</b>	<b>3,454</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>9,207</b>
<b>Excess (deficiency) of revenues over expenses:</b>	<b>284,748</b>	<b>(11,522)</b>	<b>141,351</b>	<b>(414,281)</b>	<b>4,812,868</b>	<b>185,616</b>	<b>2,483</b>	<b>(21,117)</b>	<b>101,696</b>	<b>(125,975)</b>	<b>(276,359)</b>	<b>522,806</b>	<b>5,202,334</b>
<b>Transfers:</b>	<b>3,855,166</b>	<b>—</b>	<b>—</b>	<b>451,769</b>	<b>(1,115,160)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>329,840</b>	<b>1,119,800</b>	<b>—</b>	<b>4,641,415</b>
Change in net position:	4,139,914	(11,522)	141,351	37,488	3,697,708	185,616	2,483	(21,117)	101,696	203,865	843,441	522,806	9,813,749
Net position, beginning of year:	25,627,521	17,052,061	460,363	(2,303,064)	13,201,709	1,392,242	118,411	264,349	309,557	(265,383)	(831,681)	436,103	55,512,209
Net position, end of year:	29,817,435	17,040,539	601,714	(2,265,576)	16,899,408	1,577,858	120,924	243,232	411,253	601,518	11,760	958,909	65,325,958

See accompanying independent auditors' report

**THE NAVAJO NATION**  
Combining Statement of Cash Flows  
Enterprise Funds  
Year ended September 30, 2014

	Business and Industrial Development Fund	Loan Fund	Employee Housing	Archaeology Services	Parks and Recreation	Fish and Wildlife	Navajo Nativity Fund	Navajo Tribal Fund	Ute-Ashcroft Fund	Fourth of July Celebration Fund	Annual Navajo Fair Fund	Tribal Education Fund	Total
Cash flows from operating activities:													
Income of fund	302,029	302,786	872,864	161,608	8,544,380	—	—	—	—	—	1,000,080	—	11,897,484
Interest on investments	54,269	542,036	—	—	—	—	—	—	—	—	—	—	1,000,080
Payments to employees for services	(66,558)	(711,916)	(435,013)	(63,748)	(3,212,710)	(177,130)	(5,044)	(5,044)	(21,599)	(6,535)	(297,752)	(294,642)	(5,284,613)
Payments to suppliers	(36,667)	(67,975)	(78,918)	(6,981)	(207,591)	(87,666)	(224)	(6,338)	(30,818)	(6,500)	(869,184)	(379,538)	(921,848)
Payments to third parties for services	(96,187)	(181,425)	(259,142)	(50,663)	(632,461)	(139,380)	(14,361)	(14,361)	(156,079)	(217,856)	(1,052,916)	(1,143,401)	(2,542,187)
Other receipts (payments)	823,430	(107,312)	(1,433)	(6,968)	(640,048)	817,207	(4,077)	—	—	—	—	—	3,445,076
Net cash from operating activities	981,516	109,819	86,856	34,338	3,856,570	203,731	(29,740)	—	103,662	204,821	800,064	—	6,911,156
Cash flows from capital and related financing activities:													
(Acquisition) of capital assets	—	—	—	—	(171,913)	—	—	—	—	—	—	—	(171,913)
Net cash from capital and related financing activities	—	—	—	—	(171,913)	—	—	—	—	—	—	—	(171,913)
Cash flows from noncapital and related financing activity:													
Transfer for economic development	3,855,166	—	—	—	—	—	—	—	—	—	—	—	3,855,166
Net cash from capital and related financing activity	3,855,166	—	—	—	—	—	—	—	—	—	—	—	3,855,166
Cash flows from investing activities:													
Purchases of investments	(39,111,122)	2,699,026	—	—	—	—	—	—	—	—	—	—	(39,111,122)
Receivables from investments	35,900,000	—	—	—	—	—	—	—	—	—	—	—	35,900,000
Interest on investments and cash balances	5,212	4,526	—	—	—	—	—	—	—	—	—	—	9,738
Net cash from investing activities	(1,195,910)	2,703,552	—	—	—	—	—	—	—	—	—	—	1,507,642
Net increase (decrease) in cash and cash equivalents	1,638,868	2,704,023	86,856	34,338	3,684,657	203,731	(29,740)	—	103,662	204,821	800,064	—	9,999,769
Cash and cash equivalents, beginning of year	8,693,077	3,385,963	668,312	(2,232,230)	7,544,230	1,361,362	(118,441)	175,260	272,176	(240,777)	(781,931)	—	16,558,480
Cash and cash equivalents, end of year	10,331,945	6,089,986	755,168	(1,897,892)	11,228,887	1,565,093	(148,181)	145,520	375,838	(35,956)	16,473	—	29,558,238
Reconciliation of operating income (loss) to net cash from operating activities:													
(Operating income) (loss)	278,995	(14,976)	141,371	(414,281)	4,812,808	(85,616)	(2,483)	(121,177)	(101,666)	(125,973)	(276,359)	—	5,193,127
Adjustments to reconcile operating income to net cash from operating activities:													
Depreciation expense	816,426	—	—	—	83,887	—	—	—	—	—	—	—	900,313
Amortization of bond debt	164,079	282,756	—	—	—	—	—	—	—	—	—	—	446,835
Transfer to	—	—	—	455,769	(5,115,169)	—	—	—	(5,777)	829,849	1,119,800	—	769,172
(Increase) decrease in accounts receivable	215,799	(151,527)	(8,000)	(1,180)	—	—	—	—	—	—	(25,000)	—	(169,167)
(Increase) decrease in accounts payable	—	(118,176)	(186)	—	3,157	10,198	—	—	—	—	20,857	—	54,888
Increase (decrease) in compensated absences	6,201	(15,258)	(46,229)	(4,150)	—	7,917	—	—	—	—	(3,923)	—	(75,932)
Total adjustments	792,521	(115,795)	(54,515)	(417,619)	(956,298)	18,113	—	—	3,966	370,796	3,076,413	—	3,278,029
Net cash from operating activities	981,516	109,819	86,856	34,338	3,856,570	203,731	(29,740)	—	103,662	204,821	800,064	—	6,911,156

See accompanying independent auditors' report.



**THE NAVAJO NATION**  
Combining Statement of Net Position  
Internal Service Funds  
September 30, 2014

	Assets	Fleet Management	Duplicating Services	Office Supply Center	Air Transportation	Group Health Self-Insurance Fund	Property and Casualty Self-Insurance Fund	Workers' Compensation Insurance Fund	Contingency Management Fund	Total
Current assets:										
Cash and cash equivalents	\$ 20,203,830	—	1,584,325	788,755	(3,507,736)	2,279,692	29,956	(555,142)	8,167,826	28,991,506
Investments	—	—	—	—	—	—	22,504,524	16,949,642	—	39,454,166
Receivables:										
Accrued interest receivable, net	—	—	—	—	—	—	265	66,289	—	66,554
Accounts receivable	—	—	—	—	—	1,599,697	—	17,608	200	1,617,505
Total receivables	—	—	—	—	—	1,599,697	265	83,897	200	1,684,059
Other assets	—	—	—	282,125	—	—	—	—	—	282,125
Total current assets	20,203,830	—	1,584,325	1,070,880	(3,507,736)	3,879,389	22,534,745	16,478,397	8,168,026	70,411,856
Noncurrent assets:										
Capital assets:										
Buildings	51,828	—	—	—	—	—	—	—	—	51,828
Vehicles	42,121,765	—	—	—	—	—	—	—	—	42,121,765
Equipment	890,649	439,723	439,723	3,351	5,375,543	—	226,528	86,462	—	7,022,256
Total capital assets	43,064,242	439,723	439,723	3,351	5,375,543	—	226,528	86,462	—	49,195,849
Accumulated depreciation	37,205,834	—	375,069	1,582	3,475,065	—	41,118	32,628	—	41,131,296
Capital assets, net	5,858,408	—	64,654	1,769	1,900,478	—	185,410	53,834	—	8,064,553
Total noncurrent assets	5,858,408	—	64,654	1,769	1,900,478	—	185,410	53,834	—	8,064,553
Total assets	\$ 26,062,238	—	1,648,979	1,072,649	(1,607,258)	3,879,389	22,720,155	16,532,231	8,168,026	78,476,409
Liabilities and Net Position										
Current liabilities:										
Accounts payable	\$ 162,295	—	2,662	—	4,056	1,111,808	42,185	15,555	—	1,338,561
Net investment in capital assets	184,164	—	9,483	5,821	—	14,422	33,206	16,099	—	263,195
Current estimated claims payable	—	—	—	—	—	6,600,000	4,324,247	1,713,490	—	12,637,737
Accrued liabilities	191,808	—	—	32,470	2,399	70,609	24,033	16,623	—	337,942
Total current liabilities	538,267	—	12,145	38,291	6,455	7,796,839	4,423,671	1,761,767	—	14,577,435
Noncurrent liabilities:										
Estimated claims payable	—	—	—	—	—	—	—	—	6,168,026	6,168,026
Total noncurrent liabilities	—	—	—	—	—	—	—	—	6,168,026	6,168,026
Total liabilities	538,267	—	12,145	38,291	6,455	7,796,839	4,423,671	1,761,767	6,168,026	20,745,461
Net position										
Net investment in capital assets	5,858,408	—	64,654	1,769	1,900,478	—	185,410	53,834	—	8,064,553
Restricted, expendable for claims and judgments	—	—	—	—	—	(3,917,450)	18,111,074	14,716,630	—	28,910,254
Unrestricted	19,665,563	—	1,572,180	1,032,589	(3,514,191)	—	—	—	2,000,000	20,756,141
Total net position	25,523,971	—	1,636,834	1,034,358	(1,613,713)	(3,917,450)	18,296,484	14,770,464	2,000,000	57,730,948
Total liabilities and net position	\$ 26,062,238	—	1,648,979	1,072,649	(1,607,258)	3,879,389	22,720,155	16,532,231	8,168,026	78,476,409

See accompanying independent auditors' report

## THE NAVAJO NATION

## Combining Statement of Revenues, Expenses, and Changes in Net Position

## Internal Service Funds

Year ended September 30, 2014

	Fleet Management	Duplicating Services	Office Supply Center	Air Transportation	Group Health Self-Insurance Fund	Property and Casualty Self-Insurance Fund	Worker's Compensation Insurance Fund	Contingency Management Fund	Total
Operating revenues:									
Insurance premium income	\$ —	—	—	—	34,811,391	6,920,651	191,291	—	41,923,333
Charges for services	15,483,953	775,371	657,098	578,726	—	—	—	—	17,495,148
Other income	3,495,567	—	—	—	6	24,969	38	—	3,520,580
Total operating revenues	18,979,520	775,371	657,098	578,726	34,811,397	6,945,620	191,329	—	62,939,061
Operating expenditures:									
Personnel	3,468,969	224,565	165,504	577,020	499,245	770,581	323,478	—	6,029,362
Travel, per diem, and vehicle	226,814	18,987	21,313	44,435	40,410	153,884	61,137	—	566,980
Supplies	6,877,396	35,987	482,235	353,535	37,206	55,661	31,842	—	7,873,862
Contractual service	—	—	—	—	20,408	687,636	82,275	—	790,319
Lease, telephone, and utilities	30,133	367,144	3,845	5,452	22,132	109,071	26,298	—	564,075
Repairs and maintenance	182,258	108,467	222	326,180	1,018	4,548	10,568	—	633,261
Depreciation expense	3,124,086	36,870	1,582	95,333	—	30,268	8,972	—	3,297,111
Benefits and claims	—	—	—	—	24,352,755	4,633,902	2,081,036	653,539	31,721,232
Reminsurance premiums	980	189	224	749	3,993,572	2,471,845	387	—	6,467,946
Other expense	84,154	52,407	4,480	40,527	3,909,322	65,227	24,413	—	4,180,530
Total operating expenditures	13,994,790	844,616	679,405	1,443,231	32,876,068	8,982,623	2,650,406	653,539	62,124,678
Net operating income (loss)	4,984,730	(69,245)	(22,307)	(864,505)	1,935,329	(2,037,003)	(2,459,077)	(653,539)	814,383
Nonoperating revenues	—	—	—	—	370	8,546	421,598	—	430,514
Interest and dividends	—	—	—	—	—	—	1,311,944	—	1,311,944
Net increase in fair value of investments	—	—	—	—	—	—	—	—	—
Total nonoperating revenues	—	—	—	—	370	8,546	1,733,542	—	1,742,458
Net nonoperating income	—	—	—	—	370	8,546	1,733,542	—	1,742,458
Excess (deficiency) of revenues over expenditures	4,984,730	(69,245)	(22,307)	(864,505)	1,935,699	(2,028,457)	(725,535)	(653,539)	2,556,841
Transfers	—	—	—	826,121	—	—	—	653,539	1,479,660
Change in net position	4,984,730	(69,245)	(22,307)	(38,384)	1,935,699	(2,028,457)	(725,535)	—	4,036,501
Net position, beginning of year	20,539,241	1,706,079	1,056,665	(1,575,329)	(5,853,149)	20,324,941	15,495,999	2,000,000	53,694,447
Net position, end of year	\$ 25,523,971	1,636,834	1,034,358	(1,613,713)	(3,917,450)	18,296,484	14,770,464	2,000,000	57,730,948

See accompanying independent auditors' report

**THE NAVAJO NATION**  
Combining Statement of Cash Flows  
Internal Service Funds  
Year ended September 30, 2014

	Fleet Management	Duplicating Services	Office Supply Center	Air Transportation	Group Health Self-Insurance Fund	Property and Casualty Self-Insurance Fund	Workers' Compensation Insurance Fund	Contingency Management Fund	Totals
Cash flows from operating activities:									
Receipts from customers	\$ 15,510,759	775,371	657,098	578,726	—	—	—	—	17,521,954
Cash received for premiums from the government	—	—	—	—	23,714,761	2,946,443	764	—	26,661,468
Cash received from others for premiums	(3,468,969)	—	—	—	13,535,271	3,977,255	191,164	—	17,703,690
Payments to employees for services	—	(224,565)	(165,504)	(577,020)	(499,245)	(770,581)	(323,478)	—	(6,029,362)
Payment of claims	—	—	—	—	(26,686,755)	(2,335,895)	(2,081,036)	(2,908,993)	(34,012,679)
Payments to suppliers	(6,869,326)	(35,987)	(417,700)	(353,535)	(37,206)	(55,661)	(31,842)	—	(7,801,257)
Payments (receipts) to/from third parties for services	(477,710)	(502,270)	(30,084)	(413,287)	(6,875,054)	(3,450,026)	(175,246)	—	(11,971,677)
Other receipts (payments)	3,609,934	(8,114)	29,118	828,520	(510,925)	(78,767)	(33,745)	—	3,836,021
Net cash from operating activities	8,304,688	(43,565)	72,928	63,404	2,640,847	232,768	(2,453,919)	(2,908,993)	5,908,158
Cash flows from capital and related financing activity:									
Acquisition of capital assets	(2,677,801)	(66,284)	(3,351)	—	—	(48,284)	—	—	(2,795,720)
Net cash from capital and related financing activity	(2,677,801)	(66,284)	(3,351)	—	—	(48,284)	—	—	(2,795,720)
Cash flows from investing activities:									
Purchases of investments	—	—	—	—	—	(65,948,659)	—	—	(65,948,659)
Sale of investments	—	—	—	—	—	51,072,129	2,013,393	—	53,085,522
Interest on investment and cash balances	—	—	—	—	370	9,082	434,750	—	444,202
Net cash from investing activities	—	—	—	—	370	(14,867,448)	2,448,143	—	(12,418,935)
Net increase (decrease) in cash and cash equivalents	5,626,887	(109,849)	69,577	63,404	2,641,217	(14,682,964)	(5,776)	(2,908,993)	(9,306,497)
Cash and cash equivalents, beginning of year	14,576,943	1,694,174	719,178	(3,571,140)	(361,525)	14,712,920	(549,366)	11,076,819	38,298,003
Cash and cash equivalents, end of year	\$ 20,203,830	1,584,325	788,745	(3,507,736)	2,279,692	29,956	(555,142)	8,167,826	28,991,506
Reconciliation of operating income (loss) to net cash from operating activities:									
Operating income (loss)	\$ 4,984,730	(69,245)	(22,307)	(864,505)	1,935,329	(2,037,003)	(2,459,077)	(653,539)	814,383
Adjustments to reconcile operating income (loss) to net cash from operating activities:									
Depreciation expense	3,124,086	36,870	1,582	95,333	—	30,268	8,972	—	3,297,111
Transfers	—	—	—	826,121	—	—	—	653,539	1,479,660
Decrease (increase) in accounts receivable	26,806	—	—	—	2,438,641	—	137	—	2,465,584
Decrease in other assets	8,070	—	64,535	—	—	3,047	—	—	75,652
Increase (decrease) in accounts payable	160,996	(11,190)	29,118	6,455	600,877	(61,551)	(3,951)	—	720,754
Increase in estimated claims payable	—	—	—	—	(2,334,000)	2,298,007	—	(2,908,993)	(2,914,986)
Total adjustments	3,319,958	25,680	95,235	927,909	705,518	2,269,771	5,158	(2,255,454)	5,093,775
Net cash from operating activities	\$ 8,304,688	(43,565)	72,928	63,404	2,640,847	232,768	(2,453,919)	(2,908,993)	5,908,158

See accompanying independent auditors' report.

**THE NAVAJO NATION**  
 Combining Statements of Fiduciary Net Position  
 Fiduciary Funds  
 September 30, 2014

	Pension Trust Funds				Private-Purpose Trust Funds										Total Private- Purpose Trust Funds	Total Fiduciary Funds
	Refirement Fund	Deferred Retirement Fund	Subsequent 401 (k) Fund	Total Pension Trust Funds	Handicapped Services	Senior Citizen Services	Vocational Education	Navy Academy Fund	Navy Trust Fund	Sales Tax Trust Fund	Local Government Fund	Veterans Trust Fund	Navajo Benefit Private Trust Fund			
\$	144,403	(4,831)	(4,214)	135,358	(7,149)	107,555	227,996	31,725	(477,804)	(3,609,311)	8,774,439	23,132,176	4,714,717	32,954,364	33,089,722	
	20,115,518	79,941	—	20,993,459	754,153	142,786	143,666	—	—	—	—	1,275,924	—	2,316,829	22,710,288	
	—	—	—	—	—	—	—	—	—	—	—	—	—	32,487	32,487	
	20,457,921	75,110	(4,214)	20,528,817	747,004	310,341	371,662	31,725	(477,804)	(3,609,311)	8,774,439	24,408,100	4,714,717	35,653,980	56,182,397	
	—	—	—	—	—	—	9,446,856	388,934	—	12,948,871	5,919,974	—	—	28,704,635	28,704,635	
	627,225,166	3,786,663	84,929,855	715,941,686	9,874,313	9,506,837	—	—	—	—	—	78,249,741	—	98,130,891	814,022,577	
	627,225,166	3,786,663	84,929,855	715,941,686	9,874,313	9,506,837	9,446,856	388,934	—	12,948,871	5,919,974	78,249,741	—	126,855,526	842,777,212	
	—	—	294,638	294,638	1,179,118	1,011,037	1,178,090	—	36,988	—	—	5,029,201	—	8,435,334	8,729,972	
	1,016,996	4,383	7,710,967	7,710,967	—	—	128,176	19	—	1,001	34,233	654,341	—	1,039,875	7,710,967	
	648,099,993	3,866,158	92,941,240	745,497,497	11,608,724	10,942,921	11,125,084	420,678	(58,429)	9,945,561	14,728,656	108,841,943	4,714,717	171,964,515	2,043,164	
	610,114	—	—	610,114	9,773	59,289	9,684	—	—	—	—	116,057	—	194,803	818,036	
	14,403	—	—	14,403	9,873	—	—	—	—	111,563	—	54,479	—	175,618	190,021	
	633,536	—	—	633,536	19,449	59,289	9,684	—	—	111,563	—	170,536	—	370,421	1,003,957	
	648,666,457	3,866,158	92,931,240	745,463,861	11,849,375	10,983,032	11,115,403	420,678	(58,429)	9,228,998	14,728,656	108,670,847	4,714,717	171,503,864	916,457,755	

## Assets

Cash and cash equivalents

Managed by:

The Navajo Nation

Managing selected by the Navajo Nation

Managing selected by the Navajo Nation

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## Liabilities and Net Position

Accounts payable

Accrued liabilities

Total liabilities

Net position held in trust for pension

benefits and other purposes

See accompanying independent auditors' report.

**THE NAVAJONATION**  
Combining Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
September 30, 2014

	Pension Trust Funds				Private-Purpose Trust Funds									
	Retirement Fund	Deferred Retirement Fund	Milliweeo 401 (k) Fund	Total Pension Trust Funds	Headshipped Services	Similar Citizen Services	Vocational Education	Navajo Academy Fund	Navajo Tax Trust Fund	Local Governance Fund	Veterans Trust Fund	Navajo Benefit Trust Fund	Total Private-Purpose Trust Funds	Total Fiduciary Funds
<b>Additions</b>														
Interest and investment	\$ 65,339		1,278,071	14,386,909	412,919	843,507	302,270	124	137	4,156	2,431,330	25,000	3,637,272	18,021,181
Net increase in fair value of investments	53,546,483	164,934	5,132,762	58,844,181	672,876	632,784	639,064	—	—	—	6,268,270	—	8,212,934	67,097,115
Contributions to plan	47,512,605	662,300	7,661,301	55,836,286	—	—	—	—	—	—	—	—	—	55,836,286
For revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	10,433,464
Operating expenses	217,854	—	—	217,854	—	—	—	—	—	—	130,397	—	130,397	348,451
Statutory allocation to permanent fund	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,254,416)
Statutory allocation of current year revenue	—	—	—	—	—	—	—	—	—	—	11,619,142	—	5,022,287	5,022,287
Transfers	—	892,073	—	—	1,085,793	998,231	1,031,274	—	—	—	—	—	18,571,841	(857,184)
Total additions	11,360,425	892,073	14,072,134	129,343,230	1,085,793	998,231	1,031,274	124	137	2,649,165	20,449,539	25,000	26,244,934	155,591,184
<b>Subtractions</b>														
Personnel	553,153	—	—	553,153	53,090	—	—	—	—	—	725,052	—	779,642	1,332,195
Travel	64,386	—	—	64,386	7,723	—	—	—	—	—	213,025	—	221,648	286,234
Supplies	24,939	—	—	24,939	—	—	—	—	—	—	41,111	—	41,111	46,050
Contract statements	—	—	—	—	—	—	—	—	—	—	179,664	—	179,664	186,000
Tribal grants	300	—	—	300	107,261	—	—	—	40,736	—	3,327,024	—	3,335,816	3,526,116
Lease, Utilities, and Telephone	118,152	—	—	118,152	—	—	—	—	—	—	30,631	—	30,631	148,783
Repair and maintenance	160	—	—	160	74	—	—	—	—	—	193,978	—	196,208	196,568
Retirement benefits	28,413,337	241,934	7,671,202	36,328,533	—	—	—	—	—	—	—	—	—	36,328,533
Contractual services	3,213,001	—	319,017	3,532,018	27,439	25,488	24,450	—	—	—	210,009	70	289,556	3,828,474
Scholarship payments	—	—	—	—	—	—	—	—	—	—	—	—	—	3,828,474
Other	51,604	—	447,630	499,034	35,967	204,152	313,805	—	—	—	92,274	1,073,598	1,423,691	311,803
Total subtractions	32,447,032	241,934	8,439,809	41,127,775	250,554	229,640	340,253	—	40,736	4,205,838	4,831,604	1,073,668	11,138,254	52,286,529
Change in net position	81,913,393	650,739	5,633,325	88,217,455	835,241	768,651	691,021	124	(40,299)	(1,556,673)	15,615,335	(1,048,668)	13,086,200	103,303,655
Net position, beginning of year	266,130,666	3,215,419	87,297,021	656,640,806	11,054,134	10,116,981	10,424,379	420,554	18,830	10,385,671	93,055,512	5,763,465	136,597,694	813,134,100
Net position, end of year	\$ 348,044,059	\$ 3,866,158	\$ 92,931,246	\$ 744,861,061	\$ 11,889,375	\$ 10,885,632	\$ 11,115,400	\$ 420,678	\$ (58,429)	\$ 9,228,998	\$ 108,670,847	\$ 4,714,737	\$ 171,593,894	\$ 916,437,755

See accompanying independent auditor's report.