

RESOLUTION OF THE
NAVAJO NATION COUNCIL

23rd NAVAJO NATION COUNCIL— SECOND YEAR, 2016

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 2015

Section 1. Authority

- A. 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. 12 N.N.C. § 840 (B).
- B. 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. 2 N.N.C. § 164 (A)(9).
- C. 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. 2 N.N.C. § 301(B)(10).

Section 2. Findings

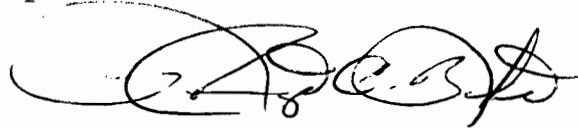
- A. KPMG, LLP, an independent auditor has prepared the 2015 annual audit for the Navajo Nation.
- B. The Navajo Nation finds it in the best interest of the Navajo Nation to accept the 2015 annual audit.

Section 3. Approval

The Navajo Nation hereby accepts the audit report of KPMG, LLP, on the Primary Government Financial Statement of the Navajo Nation for Fiscal Year 2015, 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 18 in favor and 0 opposed, this 2nd day of September 2016.

A handwritten signature in black ink, appearing to read 'L. C. Bates', with a large, stylized flourish at the end.

LoRenzo C. Bates, Speaker
Navajo Nation Council

9-7-16

Date

Motion: Honorable Davis Filfred
Second: Honorable Peterson B. Yazzie

NAVAJO NATION

RCS# 594

9/2/2016

Special Session

02:30:50 PM

Amd# to Amd#

Legislation No. 0222-16:

PASSED

MOT Filfred

Accepting the Report of KPMG

SEC Yazzie, P

LLP on the Primary Government

Financial Statement of the NN

Yea : 18

Nay : 0

Not Voting : 6

Yea : 18

Begay, K
Brown
Chee
Crotty
Damon

Daniels
Filfred
Jack
Perry
Pete

Phelps
Shepherd
Slim
Smith

Tso
Tsosie
Witherspoon
Yazzie, P

Nay : 0

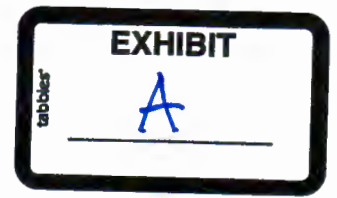
Not Voting : 6

Bates
Begay, NM

BeGaye, N
Bennett

Hale

Yazzie



Basic Financial Statements - September 30, 2015

Navajo Nation



THE NAVAJO NATION

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KPMG LLP

Two Park Square, Suite 700
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, 2015, and the related notes to the financial statements, which collectively comprise the Nation's basic financial statements of the 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 modified accrual budget basis, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles; this includes determining that the modified accrual budget basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for 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.



Summary of Opinions

Opinion unit	Type of opinion
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, 2015, 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 above 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 Nation, as of September 30, 2015, 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, 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 Pronouncement

As discussed in note 1(m) to the financial statements, effective October 1, 2014, the Nation adopted Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting for Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. Our opinions are not modified with respect to this matter.



Other Matters

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 management's discussion and analysis, budgetary comparison information (schedule 1), the schedule of changes in the net pension liability and related ratios (schedule 2), the schedule of the Navajo Nation's contributions (schedule 3), and the schedule of investment returns (schedule 4), and the combining and individual nonmajor fund financial statements (schedules 5 to 16) 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 (schedules 5 to 16) 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 on the basis of accounting described in note 1.

The management's discussion and analysis, budgetary comparison information (schedule 1), the schedule of changes in the net pension liability and related ratios (schedule 2), the schedule of the Navajo Nation's contributions (schedule 3), and the schedule of investment returns (schedule 4) has not been subjected to the auditing procedures applied in the audit of the basic financial statements, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2016 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, 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, 2016

THE NAVAJO NATION

Management's Discussion and Analysis (unaudited)

September 30, 2015

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, 2015 and 2014. 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 \$3,201,555,152 (net position).
- Expenses of the Nation's governmental activities were \$563,874,627 for the year, which included \$148,934,291 for health and welfare, \$88,210,264 for education and training, \$108,595,849 for general government, and \$76,285,904 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 \$2,864,671,122.
- At September 30, 2015, the unassigned fund balance for the General Fund was \$90,909,398.
- The Nation has a significant amount of investments in the stock and bond market managed by external investment management firms. For fiscal years 2015 and 2014, the Nation's governmental funds experienced a \$ (61.1) million decrease and \$129.1 million increase in fair value, respectively. In addition, the fiduciary funds experienced a \$(22) million decrease and \$67.1 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, \$94.5 million in fiscal year 2015 and \$116.7 million in fiscal year 2014.

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

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Management's Discussion and Analysis (unaudited)

September 30, 2015

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 statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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Management's Discussion and Analysis (unaudited)

September 30, 2015

The Nation maintains 18 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 nine 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 15 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 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, 2015

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 \$3,201,551,152 at September 30, 2015 as compared to \$3,120,510,907 at September 30, 2014, as restated.

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 \$1,793,803,858 and \$1,768,231,044 represent 97% of all nonexpendable net position as of September 30, 2015 and 2014.

	The Nation's Net Position			Business-type activities		
	Governmental activities					
	2015	2014	Change	2015	2014	Change
	(In thousands)					
Current and other assets	\$ 3,237,184	3,239,669	(2,485)	61,289	52,864	8,425
Capital assets	458,568	434,278	24,290	13,518	13,269	249
Total assets	3,695,752	3,673,947	21,805	74,807	66,133	8,674
Deferred outflow of resources, pensions	44,250	—	44,250	738	—	738
Long-term liabilities	308,279	125,994	182,285	3,817	250	3,567
Other liabilities	301,171	339,127	(37,956)	725	527	198
Total liabilities	609,450	465,121	144,329	4,542	777	3,765
Net position:						
Net investment in capital assets	405,647	379,152	26,495	13,518	13,269	249
Restricted	2,022,383	1,989,296	33,087	—	—	—
Unrestricted	702,522	840,378	(137,856)	57,485	52,087	5,398
Total net position	\$ 3,130,552	3,208,826	(78,274)	71,003	65,356	5,647

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Management's Discussion and Analysis (unaudited)

September 30, 2015

Analysis of the Nation's Operations

The following table provides a summary of the Nation's operations for the years ended September 30, 2015 and 2014. Governmental activities increased the Nation's net position by \$72,302,910 in 2015 compared to an increase of \$747,916,409 in 2014. The 2015 increase is largely due to \$105,344,745 in tax revenue, a \$47,800,544 claim settlement, and the \$64,181,664 in land, buildings, business site, and right-of-way lease revenue. 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 permanent fund accounted for \$117,920,409 of the increase in investment income in 2014.

Royalties from the sales of oil and gas and sale of coal comprise the majority of program revenues – charges for services. During 2015, the oil and gas prices continued to decline resulting in another decrease in revenues. In fiscal year 2015, 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 \$312 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 \$298 million of external funding in 2015 compared to \$326 million of external funding in 2014, which is a decrease of approximately \$28 million.

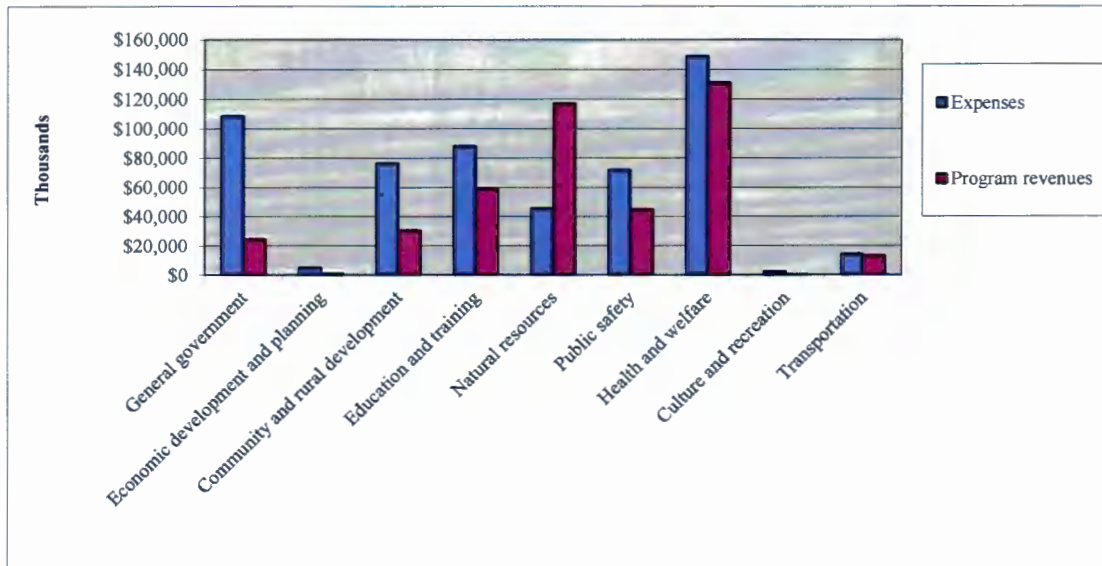
The Nation's Changes in Net Position						
Governmental activities			Business-type activities			
2015	2014	Change	2015	2014	Change	
(In thousands)						
Revenues:						
Program revenues:						
Charges for services	\$ 123,474	159,899	(36,425)	16,597	15,404	1,193
Operating grants and contributions	289,974	302,235	(12,261)	—	—	—
Capital grants and contributions	8,259	23,432	(15,173)	—	—	—
General revenues:						
Taxes:						
Business activity	6,914	6,160	754	—	—	—
Possessory interest	34,934	35,217	(283)	—	—	—
Other	63,496	59,019	4,477	—	—	—
Investment income	(2,036)	178,915	(180,951)	94	9	85
Land, buildings, business site, and right-of-way lease	64,182	62,347	1,835	—	—	—
Total revenues	589,197	827,224	(238,027)	16,691	15,413	1,278
Expenses:						
General government	108,596	97,997	10,599	—	—	—
Economic development and planning	5,254	4,961	293	—	—	—
Community and rural development	76,286	94,032	(17,746)	—	—	—
Education and training	88,210	81,052	7,158	—	—	—
Natural resources	45,693	43,631	2,062	—	—	—
Public safety	71,899	65,476	6,423	—	—	—
Health and welfare	148,934	157,816	(8,882)	—	—	—
Culture and recreation	2,426	2,532	(106)	—	—	—
Transportation	14,181	16,140	(1,959)	—	—	—
Interest on long-term debt	2,395	2,929	(534)	—	—	—
Business Industrial Development Fund	—	—	—	4,195	795	3,400

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Management's Discussion and Analysis (unaudited)
September 30, 2015

	The Nation's Changes in Net Position			Business-type activities		
	Governmental activities					
	2015	2014	Change	2015	2014	Change
	(In thousands)					
Credit services	\$ —	—	—	565	1,170	(605)
Navajo Nation housing	—	—	—	880	801	79
Archaeology services	—	—	—	—	576	(576)
Parks and recreation	—	—	—	3,368	3,875	(507)
Fish and wildlife	—	—	—	1,485	641	844
Navajo Nation Code	—	—	—	—	—	—
Navajo transit	—	—	—	13	24	(11)
Livestock custody	—	—	—	22	60	(38)
Fourth of July	—	—	—	348	276	72
Annual Navajo Nation Fair	—	—	—	1,272	1,294	(22)
Tribal ranch	—	—	—	1,019	699	320
Total expenses	563,874	566,566	(2,692)	13,167	10,211	2,956
Increase (decrease) in net assets before transfers and extraordinary item claims settlement	25,323	260,658	(235,335)	3,524	5,202	(1,678)
Transfers	(821)	(3,784)	2,963	821	4,642	(3,821)
Statutory allocations	—	—	—	4,396	—	4,396
Extraordinary item — claims settlement	47,801	554,000	(506,199)	—	—	—
Extraordinary item — fees associated with claims settlement	—	(62,957)	62,957	—	—	—
Change in net position	72,303	747,917	(675,614)	8,741	9,844	(1,103)
Net position, beginning of year as restated	3,058,249	2,460,909	597,340	62,262	55,512	6,750
Net position, end of year	\$ 3,130,552	3,208,826	(78,274)	71,003	65,356	5,647

THE NAVAJO NATION
Management's Discussion and Analysis (unaudited)
September 30, 2015

2015 Expenses and Program Revenues – Governmental Activities



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 \$2,864,671,122. Approximately, 97% 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.

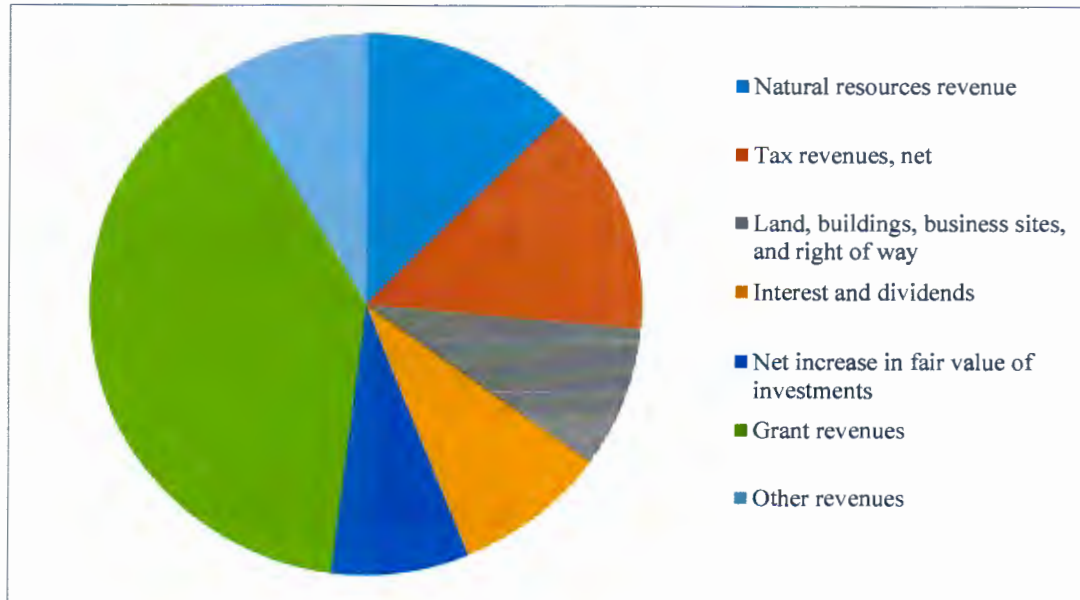
The General Fund's expenditures exceeded revenues by \$31,047,857 during 2015.

At September 30, 2015, the Grant Fund recorded unearned revenue of \$237,450,071. 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 fund balance increased \$25,572,814 during the year ended September 30, 2015. The fund has a net decrease in fair value of investments of \$ (55,915,465) and interest and dividends of \$54,891,529. In addition, statutory deposits revenues of \$33,263,409 were added to the fund this year.

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Management's Discussion and Analysis (unaudited)
September 30, 2015

2015 Revenue by Source – Governmental Funds



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, 2015, enterprise fund net position increased \$8,741,335 and internal service fund net position increased \$4,502,525.

General Fund Budgetary Highlights

- The Nation approved appropriations for fiscal year 2015 expenditures of \$263,594,803. This amount included an initial operating budget of \$219,978,389 and supplemental appropriations approved during the year for various purposes of \$43,616,414.
- Total net revenues of \$194,830,402 exceeded the original projection of \$177,755,000 by \$17,075,402.
- On a budgetary basis, expenditures exceeded revenues by approximately \$29.0 million before transfers.

THE NAVAJO NATION

Management's Discussion and Analysis (unaudited)

September 30, 2015

Capital Assets

The Nation's investment in capital assets for its governmental and business-type activities as of September 30, 2015 amounts to \$472,086,110 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure, and construction in progress.

- The construction in progress of \$33,642,266 increased from the prior year balance of \$8,768,691, which was attributable to the start of construction for new a judicial building project.

	Capital Assets at Year-End			
	Governmental activities		Business-type activities	
	2015	2014	2015	2014
Land and land development	\$ 90,481	89,373	739	739
Buildings and improvements	383,506	374,842	20,735	20,135
Vehicles	103,485	105,416	—	—
Equipment	79,414	72,814	1,757	1,701
Furniture and fixtures	6,376	6,103	—	—
Construction in progress	33,642	8,769	—	—
Accumulated depreciation	(238,337)	(223,039)	(9,713)	(9,306)
Total	\$ 458,567	434,278	13,518	13,269

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

Debt Administration

At September 30, 2015, the Nation had the following debt:

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

	Governmental activities		Business-type activities	
	2015	2014	2015	2014
Notes payable	\$ 61,372	57,749	—	—
Total	\$ 61,372	57,749	—	—

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

THE NAVAJO NATION
Management's Discussion and Analysis (unaudited)
September 30, 2015

Economic Factors and Next Year's Budget and Rates

- The Nation operating budget is based on estimated revenue projections. Through April 2016, the Nation's actual revenues were at 70% 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 2016, declining oil prices are expected to lead to a decrease in revenues.
- The Nation Permanent Fund income (95% of income) became available for appropriation starting October 1, 2005 subject to an approved five-year expenditure plan.

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: Jim Parris, Controller, at:

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

THE NAVAJO NATION
Statement of Net Position
Modified Accrual Budget Basis
September 30, 2015

Assets	Primary government		Total
	Governmental activities	Business-type activities	
Cash and cash equivalents (note 2)	\$ 495,429,468	41,450,531	536,879,999
Investments (note 2)	375,422,109	6,309,488	381,731,597
Accounts, claims settlement, and notes receivable, net (note 3)	42,305,457	10,597,988	52,903,445
Accrued interest receivable	1,452,052	2,361	1,454,413
Prepaid expenses and other assets	—	2,928,615	2,928,615
Restricted assets:			
Cash and cash equivalents (note 2)	428,626,612	—	428,626,612
Investments (note 2)	1,683,244,096	—	1,683,244,096
Accounts and notes receivable, net (note 3)	203,334,678	—	203,334,678
Accrued interest receivable	5,664,986	—	5,664,986
Prepaid expenses and other assets	1,704,986	—	1,704,986
Capital assets (note 4):			
Land and construction in progress	124,123,691	739,419	124,863,110
Buildings and equipment, net of accumulated depreciation	334,443,993	12,779,007	347,223,000
Total capital assets	458,567,684	13,518,426	472,086,110
Total assets	\$ 3,695,752,128	74,807,409	3,770,559,537
Deferred Outflow of Resources			
Pension-related outflows	\$ 44,250,398	738,334	44,988,732
Total deferred outflow of resources	\$ 44,250,398	738,334	44,988,732
Liabilities			
Accounts payable and accrued liabilities (note 6)	\$ 59,811,537	725,442	60,536,979
Unearned revenue	241,359,876	—	241,359,876
Long-term liabilities (note 7):			
Due within one year	68,838,586	174,291	69,012,877
Due in more than one year	21,128,165	—	21,128,165
Net pension liability	218,312,597	3,642,623	221,955,220
Total long-term liabilities	308,279,348	3,816,914	312,096,262
Total liabilities	609,450,761	4,542,356	613,993,117
Net Position			
Net investment in capital assets	405,646,688	13,518,426	419,165,114
Expendable restricted assets:			
Restricted for community and rural development	68,144,115	—	68,144,115
Restricted for economic development and loans	9,179,780	—	9,179,780
Restricted for education	57,600,486	—	57,600,486
Restricted for claims and refunds	35,587,877	—	35,587,877
Nonexpendable restricted assets:			
Restricted for future government operations	1,793,803,858	—	1,793,803,858
Restricted for chapter activities	58,066,518	—	58,066,518
Unrestricted	702,522,443	57,484,961	760,007,404
Total net position	3,130,551,765	71,003,387	3,201,555,152
Total liabilities and net position	\$ 3,740,002,526	75,545,743	3,815,548,269

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Statement of Activities
Modified Accrual Budget Basis
Year ended September 30, 2015

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	Total
Governmental activities:							
General government	\$ 108,595,849	13,923,860	10,272,264	198,659	(84,201,066)	—	(84,201,066)
Economic development and planning	5,253,804	280,380	546,474	77,700	(4,349,250)	—	(4,349,250)
Community and rural development	76,285,904	9,197,942	19,373,451	2,041,031	(45,673,480)	—	(45,673,480)
Education and training	88,210,264	2,060,773	56,246,936	736,338	(29,166,217)	—	(29,166,217)
Natural resources	45,693,344	96,010,081	20,864,650	259,453	71,440,840	—	71,440,840
Public safety	71,899,055	1,511,122	42,365,002	1,223,192	(26,799,739)	—	(26,799,739)
Health and welfare	148,934,291	278,669	129,885,410	1,086,007	(17,684,205)	—	(17,684,205)
Culture and recreation	2,425,909	119,203	77	—	(2,306,629)	—	(2,306,629)
Transportation	14,181,131	92,250	10,419,955	2,636,490	(1,032,436)	—	(1,032,436)
Interest on long-term debt	2,395,076	—	—	—	(2,395,076)	—	(2,395,076)
Total governmental activities	563,874,627	123,474,280	289,974,219	8,258,870	(142,167,258)	—	(142,167,258)
Business-type activities:							
Business Industrial Development Fund	4,194,724	633,705	—	—	—	(3,561,019)	(3,561,019)
Credit services	565,242	940,460	—	—	—	375,218	375,218
Navajo Nation Housing	880,692	899,219	—	—	—	18,527	18,527
Archaeology services	151	145,373	—	—	—	145,222	145,222
Parks and recreation	3,368,101	10,688,199	—	—	—	7,320,098	7,320,098
Fish and wildlife	1,485,638	879,531	—	—	—	(606,107)	(606,107)
Navajo Nation Code	—	2,761	—	—	—	2,761	2,761
Navajo Transit Fund	12,732	10,821	—	—	—	(1,911)	(1,911)
Livestock Custody	22,020	147,190	—	—	—	125,170	125,170
Treaty Days Celebration Fund	347,603	154,416	—	—	—	(193,187)	(193,187)
Annual Navajo Nation Fair	1,271,501	949,048	—	—	—	(322,453)	(322,453)
Tribal Ranch	1,018,884	1,146,633	—	—	—	127,749	127,749
Total business-type activities	13,167,288	16,597,356	—	—	—	3,430,068	3,430,068
	\$ 577,041,915	140,071,636	289,974,219	8,258,870	(142,167,258)	3,430,068	(138,737,190)
General Revenue							
Taxes (note 10):							
Business activity					6,914,318	—	6,914,318
Possessory interest					34,934,178	—	34,934,178
Fuel excise					9,957,458	—	9,957,458
Oil and gas severance					6,271,414	—	6,271,414
Sales					44,601,656	—	44,601,656
Tobacco products					393,128	—	393,128
Hotel occupancy					1,938,509	—	1,938,509
Junk food tax					334,084	—	334,084
Unrestricted investment income (loss)					(2,035,926)	94,098	(1,941,828)
Statutory allocation					—	4,396,310	4,396,310
Land, buildings, business site, and right-of-way lease					64,181,664	—	64,181,664
Extraordinary item – Claims settlement					47,800,544	—	47,800,544
Transfers					(820,859)	820,859	—
Total general revenues and transfers					214,470,168	5,311,267	219,781,435
Change in net position					72,302,910	8,741,335	81,044,245
Net position, beginning of year, as restated (note 1(m))					3,058,248,855	62,262,052	3,120,510,907
Net position, end of year					\$ 3,130,551,765	71,003,387	3,201,555,152

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Balance Sheet – Governmental Funds
Modified Accrual Budget Basis
September 30, 2015

Assets	General fund (Schedule 5)	Grant fund	Permanent fund	Other governmental funds	Total governmental funds
Cash and cash equivalents (note 2)	\$ 409,439,715	227,462,904	130,529,218	123,543,153	890,974,990
Investments (including \$5,404,242 of pledged securities) (note 2)	223,046,107	9,987,167	1,509,430,957	277,798,615	2,020,262,846
Accounts receivable, net	4,071,950	151,461	95,731	56,083	4,375,225
Accrued interest receivable	732,236	—	5,011,175	1,272,466	7,015,877
Note receivable (note 3)	3,659,287	—	151,543,708	53,733,346	208,936,341
Receivable from grantors	—	30,860,400	—	—	30,860,400
Due from other funds (note 5)	17,756,253	—	—	—	17,756,253
Restricted assets	518,368	1,186,618	—	—	1,704,986
Total assets	<u>\$ 659,223,916</u>	<u>269,648,550</u>	<u>1,796,610,789</u>	<u>456,403,663</u>	<u>3,181,886,918</u>
Liabilities and Fund Balances					
Liabilities:					
Accounts payable (note 6)	\$ 4,844,586	5,035,767	2,796,452	16,728,180	29,404,985
Accrued liabilities (note 6)	19,277,744	9,406,459	10,479	—	28,694,682
Due to other funds (note 5)	—	17,756,253	—	—	17,756,253
Unearned revenue	3,909,805	237,450,071	—	—	241,359,876
Total liabilities	<u>28,032,135</u>	<u>269,648,550</u>	<u>2,806,931</u>	<u>16,728,180</u>	<u>317,215,796</u>
Fund balances:					
Nonspendable:					
Permanent fund principal	—	—	1,642,260,150	58,066,518	1,700,326,668
Long-term receivable	3,659,287	—	151,543,708	53,581,787	208,784,782
Spendable:					
Restricted for:					
Restricted assets	518,368	—	—	—	518,368
Economic development loans	8,661,412	—	—	—	8,661,412
Education	—	—	—	52,369,625	52,369,625
Special projects	—	—	—	7,514,265	7,514,265
Other capital projects	2,966,099	—	—	49,751,226	52,717,325
Committed for:					
Other capital projects	501,873,780	—	—	137,565,507	639,439,287
Other purposes	12,567,931	—	—	80,826,555	93,394,486
Assigned to:					
Other purposes	10,035,506	—	—	—	10,035,506
Unassigned:					
General fund	90,909,398	—	—	—	90,909,398
Total fund balances	<u>631,191,781</u>	<u>—</u>	<u>1,793,803,858</u>	<u>439,675,483</u>	<u>2,864,671,122</u>
Total liabilities and fund balances	<u>\$ 659,223,916</u>	<u>269,648,550</u>	<u>1,796,610,789</u>	<u>456,403,663</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					
					453,595,230
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)					
					58,523,565
Amounts presented in the statement of net position relating to pension outflows					
					43,365,063
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					(61,371,676)
Net pension liability					(213,944,720)
Compensated absences and retirement accrual					(14,286,819)
Net position of governmental activities					<u>\$ 3,130,551,765</u>

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds
Modified Accrual Budget Basis
Year ended September 30, 2015

Revenues	General fund (Schedule 6)	Grant fund	Permanent fund	Other governmental funds	Total governmental funds
Natural resource revenue:					
Oil and gas	\$ 34,586,850	—	—	—	34,586,850
Mining	59,899,623	—	—	—	59,899,623
Tax revenue, net (note 9)	91,050,138	—	—	14,294,607	105,344,745
Land, buildings, business site, and right-of-way right-of-way revenue	64,181,664	—	—	—	64,181,664
Grant revenue	—	298,233,089	—	—	298,233,089
Interest and dividends	2,118,081	—	54,891,259	11,263,861	68,273,201
Net (decrease) in fair value of investments	(3,672,604)	—	(55,915,465)	(1,482,129)	(61,070,198)
Other revenue	4,191,192	—	888,857	12,914,030	17,994,079
Statutory allocation to permanent fund	(30,602,478)	—	33,263,409	(1,448,935)	1,211,996
Statutory allocation of current year revenues	(29,573,694)	—	—	18,086,159	(11,487,535)
Total revenues	<u>192,178,772</u>	<u>298,233,089</u>	<u>33,128,060</u>	<u>53,627,593</u>	<u>577,167,514</u>
Expenditures					
Current:					
General government	85,153,445	10,272,264	7,555,246	8,522,460	111,503,415
Economic development and planning	4,922,427	546,474	—	—	5,468,901
Community and rural development	48,958,509	19,373,451	—	5,125,974	73,457,934
Education and training	25,074,166	56,246,936	—	6,209,866	87,530,968
Natural resources	22,261,043	20,864,650	—	1,503,709	44,629,402
Public safety	9,767,267	42,365,002	—	7,166,885	59,299,154
Health and welfare	16,853,943	129,885,410	—	—	146,739,353
Culture and recreation	1,122,481	77	—	1,107,913	2,230,471
Transportation	—	10,419,955	—	3,616,790	14,036,745
Debt service – principal	—	—	—	2,667,769	2,667,769
Capital outlay	9,113,348	8,258,870	—	30,079,145	47,451,363
Total expenditures	<u>223,226,629</u>	<u>298,233,089</u>	<u>7,555,246</u>	<u>66,000,511</u>	<u>595,015,475</u>
Excess of revenues over expenditures	<u>(31,047,857)</u>	<u>—</u>	<u>25,572,814</u>	<u>(12,372,918)</u>	<u>(17,847,961)</u>
Other Financing Sources (Uses)					
Long-term debt issued (note 7)	—	—	—	6,300,000	6,300,000
Transfers (note 5)	(5,387,508)	—	—	2,000,000	(3,387,508)
Total other financing sources (uses)	<u>(5,387,508)</u>	<u>—</u>	<u>—</u>	<u>8,300,000</u>	<u>2,912,492</u>
Extraordinary Item					
Claims settlement	—	—	—	47,800,544	47,800,544
Total extraordinary item	<u>—</u>	<u>—</u>	<u>—</u>	<u>47,800,544</u>	<u>47,800,544</u>
Net change in fund balances (Exhibit E)	<u>(36,435,365)</u>	<u>—</u>	<u>25,572,814</u>	<u>43,727,626</u>	<u>32,865,075</u>
Fund balance, beginning of year	667,627,146	—	1,768,231,044	395,947,857	2,831,806,047
Fund balance, end of year	<u>\$ 631,191,781</u>	<u>—</u>	<u>1,793,803,858</u>	<u>439,675,483</u>	<u>2,864,671,122</u>

See accompanying notes to basic financial statements.

THE NAVAJO NATION

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

Modified Accrual Budget Basis

Year ended September 30, 2015

Net change in fund balances – governmental funds (Exhibit D)	\$	32,865,075
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	\$	45,829,394
Depreciation expense		<u>(18,447,357)</u>
		27,382,037
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position		2,677,769
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		(6,300,000)
Compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		38,683
Net pension liabilities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds		(32,228,242)
Deferred outflows of resources related to pensions do not require the use of current financial resources and, therefore, are not reported as revenues in the governmental funds		43,365,063
Internal service funds are used by the Nation to charge the costs of certain activities to the individual funds. The net revenue of internal service funds applicable to governmental activities is reported with governmental activities (Exhibit G)		<u>4,502,525</u>
Change in net position of governmental activities (Exhibit B)	\$	<u><u>72,302,910</u></u>

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Statement of Net Position
Proprietary Funds
Modified Accrual Budget Basis
September 30, 2015

Exhibit F

Assets	Business-type activities – enterprise funds	Governmental activities – internal service funds
Current assets:		
Cash and cash equivalents (note 2)	\$ 41,450,531	33,081,090
Investments (note 2)	6,309,488	38,403,359
Receivables:		
Accrued interest receivable, net	2,361	101,161
Accounts receivable	114,663	1,468,169
Current portion of notes receivable (note 3)	3,540,393	—
Total receivables	<u>3,657,417</u>	<u>1,569,330</u>
Other current assets	—	—
Total current assets	<u>51,417,436</u>	<u>73,053,779</u>
Noncurrent assets:		
Receivables:		
Notes receivable, net (note 3)	6,942,932	—
Capital assets (note 4):		
Land and land development costs	739,419	—
Buildings	20,734,916	51,828
Vehicles	—	35,972,469
Equipment	1,756,903	7,031,844
Total capital assets	<u>23,231,238</u>	<u>43,056,141</u>
Accumulated depreciation	9,712,812	38,083,687
Capital assets, net	<u>13,518,426</u>	<u>4,972,454</u>
Other assets	2,928,615	—
Total noncurrent assets	<u>23,389,973</u>	<u>4,972,454</u>
Total assets	<u>\$ 74,807,409</u>	<u>78,026,233</u>
Deferred Outflow of Resources		
Pension-related outflows	\$ 738,334	885,335
Total deferred outflow of resources	<u>\$ 738,334</u>	<u>885,335</u>
Liabilities and Net Position		
Current liabilities:		
Accounts payable (note 6)	\$ 276,928	411,922
Current portion of compensated absences (note 7)	174,291	263,192
Current estimated claims payable (note 7)	—	8,526,656
Accrued liabilities (note 6)	448,514	1,299,948
Total current liabilities	<u>899,733</u>	<u>10,501,718</u>
Noncurrent liabilities:		
Estimated claims payable (note 7)	—	5,518,408
Net pension liability (note 8)	3,642,623	4,367,877
Total noncurrent liabilities	<u>3,642,623</u>	<u>9,886,285</u>
Total liabilities	<u>4,542,356</u>	<u>20,388,003</u>
Net position:		
Net investment in capital assets	13,518,426	4,972,454
Expendable restricted net position	—	—
Restricted for claims and refunds	—	35,587,877
Unrestricted	57,484,961	17,963,234
Total net position	<u>71,003,387</u>	<u>58,523,565</u>
Total liabilities and net position	<u>\$ 75,545,743</u>	<u>78,911,568</u>

See accompanying notes to basic financial statements.

THE NAVAJO NATION

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

Proprietary Funds

Modified Accrual Budget Basis

Year ended September 30, 2015

	Business-type activities – enterprise funds	Governmental activities – internal service funds
Operating revenues:		
Rental income	\$ 1,212,611	—
Interest income – notes receivable	988,881	—
Insurance premium income	—	44,618,222
Charges for services	13,930,812	14,866,173
Other income	465,052	405,811
Total operating revenues	16,597,356	59,890,206
Operating expenses:		
Personnel	4,299,327	5,155,332
Travel, per diem, and vehicle	771,193	454,444
Supplies	763,488	6,073,800
Contractual service	291,968	713,957
Lease, telephone, and utilities	393,713	430,220
Repairs and maintenance	1,474,610	612,811
Recovery of bad debts	(335,608)	—
Depreciation expense	406,037	3,076,163
Benefits and claims	—	32,644,093
Reinsurance premiums	6,049	4,431,164
Other expenses	5,096,511	4,905,149
Total operating expenses	13,167,288	58,497,133
Operating income	3,430,068	1,393,073
Nonoperating revenues:		
Interest and dividends	94,098	377,032
Statutory allocation	4,396,310	—
Net increase in fair value of investments	—	165,771
Total nonoperating revenues	4,490,408	542,803
Nonoperating revenues, net	4,490,408	542,803
Income before transfers	7,920,476	1,935,876
Transfers (note 5)	820,859	2,566,649
Change in net position	8,741,335	4,502,525
Net position, beginning of year, as restated	62,262,052	54,021,040
Net position, end of year	\$ 71,003,387	58,523,565

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Statement of Cash Flows
Proprietary Funds
Modified Accrual Budget Basis
Year ended September 30, 2015

	Business-type activities – enterprise funds	Governmental activities – internal service funds
Cash flows from operating activities:		
Receipts from customers	\$ 15,143,423	14,591,488
Cash received for premiums from the government	—	25,366,728
Cash received from others for premiums	—	19,675,516
Receipt of interest on loans	988,881	—
Payments to employees for services	(4,564,876)	(5,382,702)
Payments of claims	—	(34,838,143)
Payments to suppliers	(763,488)	(5,791,675)
Payments to third parties for services	(2,854,876)	(12,447,834)
Other receipts, (disbursement)	(2,582,904)	1,341,267
Net cash provided by operating activities	<u>5,366,160</u>	<u>2,514,645</u>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(655,415)	(9,588)
Sale of capital assets	—	25,524
Net cash (used in) provided by capital and related financing activities	<u>(655,415)</u>	<u>15,936</u>
Cash flows from noncapital and related financing activities		
Transfer	820,859	—
Statutory allocation	4,396,310	—
Net cash provided by capital and related financing activities	<u>5,217,169</u>	<u>—</u>
Cash flows from investing activities:		
Purchase of investments	(22,995,598)	(55,866,227)
Sales of investments	24,865,201	57,074,546
Interest on investment and cash balances	94,756	350,684
Net cash provided by investing activities	<u>1,964,359</u>	<u>1,559,003</u>
Net increase in cash and cash equivalents	11,892,273	4,089,584
Cash and cash equivalents, beginning of year	29,558,258	28,991,506
Cash and cash equivalents, end of year	<u>\$ 41,450,531</u>	<u>33,081,090</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 3,430,068	1,393,073
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	406,037	3,076,163
Provision for bad debts	(335,608)	—
Transfers	—	2,566,649
Increase in accounts receivable	(565,939)	(248,189)
Decrease in other assets	—	710,603
Decrease in notes receivable	2,501,104	—
(Increase) in deferred outflows	(738,334)	(885,335)
Increase (decrease) in compensated absences	(75,932)	—
Increase (decrease) in accounts payable	196,047	4,414
(Decrease) in estimated claims payable	—	(4,760,702)
Increase in net pension liability	548,717	657,969
Total adjustments	<u>1,936,092</u>	<u>1,121,572</u>
Net cash provided by operating activities	<u>\$ 5,366,160</u>	<u>2,514,645</u>

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Statement of Fiduciary Net Position
Fiduciary Funds
Modified Accrual Budget Basis
September 30, 2015

Assets	Pension trust funds	Private- purpose trust funds
Cash and cash equivalents (note 2)	\$ 23,204,705	19,649,692
Investments (note 2)	721,241,309	151,073,541
Accrued interest receivable	1,568,177	552,113
Note receivable (note 3)	479,673	9,034,777
Participant loans receivable	7,715,468	—
Total assets	<u>754,209,332</u>	<u>180,310,123</u>
Deferred Outflow of Resources		
Pension related outflows	<u>—</u>	246,194
Total deferred outflow of resources	<u>—</u>	<u>246,194</u>
Liabilities and Net Position		
Accounts payable (note 6)	<u>—</u>	334,547
Net pension liability (note 8)	<u>—</u>	1,214,613
Total liabilities	<u>—</u>	<u>1,549,160</u>
Net position held in trust for pension benefits and other purposes	<u>\$ 754,209,332</u>	<u>179,007,157</u>

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Modified Accrual Budget Basis
Year ended September 30, 2015

	<u>Pension trust funds</u>	<u>Private- purpose trust funds</u>
Additions:		
Interest and dividends	\$ 15,437,768	3,937,954
Net (decrease) in fair value of investments	(20,540,831)	(1,473,735)
Contributions to plans	58,698,574	—
Tax revenue	—	10,099,966
Other revenue	341,899	653,196
Statutory allocation of current year revenue, net	—	5,879,229
Total additions	<u>53,937,410</u>	<u>19,096,610</u>
Deductions:		
Personnel	556,273	1,496,818
Travel	35,518	241,571
Supplies	35,477	17,977
Chapter disbursements	—	6,201,962
Tribal grants	—	1,594,339
Utilities	116,634	10,570
Repair and maintenance	3,676	37,018
Retirement benefits	40,427,645	—
Contractual services	3,324,353	333,544
Scholarship payments	—	326,446
Other	92,363	391,456
Total deductions	<u>44,591,939</u>	<u>10,651,701</u>
Change in net position	9,345,471	8,444,909
Net position, beginning of year, as restated	<u>744,863,861</u>	<u>170,562,248</u>
Net position, end of year	<u>\$ 754,209,332</u>	<u>179,007,157</u>

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2015

(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 No. 14 and GASB Statement No. 61, The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. GASB Statement No. 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 No. 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, 2015

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, *Fund Balance Reporting and Governmental Fund Type Definitions*, 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, 2015

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.

Sihasin Fund (included in General Fund)

The Sihasin Fund was created with monies received from a settlement with the U.S. government related to trust mismanagement of assets. The purposes of the fund include financing the planning and development of regional infrastructure, supporting economic and community development, education opportunities for members of the Nation, and leveraging the fund by way of guaranteeing loans or match funding.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2015

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.

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.

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Notes to Basic Financial Statements
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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.

Land Acquisition Fund (Nonmajor fund)

The Land Acquisition Fund is used to provide revenue to acquire land for the Nation in accordance with the Navajo Nation Land Acquisition Policies and Procedures. 2% of all unrestricted revenue 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 revenue 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.

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Notes to Basic Financial Statements
September 30, 2015

Healthy Diné Tax Act Fund

The Healthy Diné Tax Act Fund was established to fund community wellness projects. A 2% tax is added to the sale of food or beverage items considered to have minimal-to-no nutritional value.

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:

FMIS Key Bank Loan Fund (Nonmajor fund)

The fund was established with an unsecured general obligation credit facility to maintain and upgrade the Nation's Financial Management Information System. The loan will be repaid with general funds.

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 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.

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Notes to Basic Financial Statements
September 30, 2015

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.

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.

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Notes to Basic Financial Statements
September 30, 2015

Navajo Nation Code Fund (Nonmajor fund)

The Navajo Nation Code Fund was established to account for the revenue 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 revenue 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 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.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2015

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.

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 NAVAJO NATION

Notes to Basic Financial Statements

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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 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

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September 30, 2015

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.

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

THE NAVAJO NATION
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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 is 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.

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 is generally recorded when earned, except for taxes, natural resources, and right-of-way 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 is recorded when susceptible to accrual, i.e., both measurable and available to be budgeted to pay liabilities of the current period, except for taxes, natural resources revenue and right-of-way, 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.

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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 revenue, 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.

Operating revenues includes 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 includes 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 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. *Restricted expendable* net position is resources that the Nation is legally or contractually obligated to spend in accordance with imposed restrictions. *Restricted nonexpendable* net

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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 \$2,022,382,634 of restricted net position, of which \$1,829,391,735 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.

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.

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(g) Cash, Cash Equivalents, Restricted 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 and model indexes for determining the fair value of its equity and corporate debt securities, respectively. 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.

(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
Equipment	3 to 15 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 revenue

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

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(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.

(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 Changes

During the year ended September 30, 2015, the Nation implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27*, That requires that employers and nonemployer contributing entities report a net pension liability and related pension expense as determined by the plan under the requirements contained in GASB Statement No. 67. Previously, GASB Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, required employers to report a net pension obligation as determined under the requirements of GASB Statement No. 25.

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Implementation of this standard had no effect on the beginning fund balances of governmental funds. However, the beginning net position of governmental and business-type activities have been restated. The restatement eliminated the previously reported net pension obligation and recognizes the newly required net pension liability (NPL). The effect of the restatement is shown below:

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Private- purpose trust funds</u>	<u>Total</u>
As originally reported on October 1	\$ 3,208,825,867	65,355,958	171,593,894	3,445,775,719
Restatements:				
Elimination of opening net pension obligation as of September 30, 2014	34,849,374	—	—	34,849,374
Recognition of opening net pension obligation as of October 1, 2014	<u>(185,426,386)</u>	<u>(3,093,906)</u>	<u>(1,031,646)</u>	<u>(189,551,938)</u>
Restated net position	<u>\$ 3,058,248,855</u>	<u>62,262,052</u>	<u>170,562,248</u>	<u>3,291,073,155</u>

(2) Cash, Cash Equivalents, Restricted Cash, and Investments

A summary of cash and investments as of September 30, 2015 is as follows:

Cash, including money market accounts	\$ 1,008,361,007
Certificates of deposit	8,727,974
Government and federal agency obligations	482,314,765
Municipal bonds	8,145,118
Corporate bonds	399,086,953
Corporate obligations	73,336,066
Marketable securities	1,567,013,062
Alternative investments	211,969,318
Mutual funds	<u>186,697,288</u>
Total cash and investments	<u>\$ 3,945,651,551</u>

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Government-wide financial statements (Exhibit A):	
Cash and cash equivalents	\$ 536,879,999
Investments	381,731,597
Restricted cash and cash equivalents	428,626,612
Restricted investments	1,683,244,096
Fiduciary funds statement of net assets (Exhibit I):	
Pension trust funds:	
Cash and cash equivalents	23,204,705
Investments	721,241,309
Private-purpose trust funds:	
Cash and cash equivalents	19,649,692
Investments	151,073,541
	<u>\$ 3,945,651,551</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.

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, 2015, 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, 2015, the Nation is not exposed to investment custodial credit risk as all of the Nation's investments are held in the Nation's name.

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(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 low risk 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 including pro rate share of mutual fund fixed income as of September 30, 2015:

Rating	Government and federal agency obligations	Municipal bonds	Corporate bonds	Corporate obligations	Mutual funds	Total
AAA	\$ —	1,830,988	1,862,520	21,599,751	306,808	25,600,067
AA	177,647,754	1,725,566	37,363,611	7,865,639	—	224,602,570
A	144,019	4,259,564	172,301,379	10,549,377	105,913,841	293,168,180
BBB	2,330,136	—	171,499,038	4,582,140	556,538	178,967,852
BB	—	—	8,576,551	2,001,322	10,730,293	21,308,166
B	—	—	1,874,221	489,368	11,448,470	13,812,059
CCC	—	—	524,200	835,263	304,493	1,663,956
CC	—	—	—	81,874	—	81,874
D	—	—	—	2,406,107	—	2,406,107
Not rated	3,674,820	329,000	5,085,433	22,925,225	57,206,208	89,220,686
U.S. government guaranteed	298,518,036	—	—	—	230,637	298,748,673
	<u>\$ 482,314,765</u>	<u>8,145,118</u>	<u>399,086,953</u>	<u>73,336,066</u>	<u>186,697,288</u>	<u>1,149,580,190</u>

(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.

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As of September 30, 2015, 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	\$ 8,727,974	8,727,974	—	—	—
Government and federal agency obligations	482,314,765	173,918,576	66,479,597	33,850,886	208,065,706
Municipal bonds	8,145,118	—	1,426,892	2,130,112	4,588,114
Corporate bonds	399,086,953	9,887,902	269,986,181	61,255,303	57,957,567
Corporate obligations	73,336,066	—	21,532,917	2,867,742	48,935,407
Mutual funds	186,697,288	—	186,697,288	—	—
	<u>\$ 1,158,308,164</u>	<u>192,534,452</u>	<u>546,122,875</u>	<u>100,104,043</u>	<u>319,546,794</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.

(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

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be represented on the Europe, Australasia, and Far East index. The Nation's exposure to foreign currency risk is as follows:

Country	Currency	Corporate bonds	Municipal bonds and corporate obligations	Government and federal agency obligations	Marketable securities	Total
Australia	Dollar	\$ 1,781,326	—	—	—	1,781,326
Bermuda	Dollar	208,500	—	—	—	208,500
Brazil	Real	594,100	—	—	—	594,100
Canada	Dollar	9,115,404	3,557,004	144,019	2,085,627	14,902,054
Cayman Islands	Dollar	315,119	2,619,900	—	—	2,935,019
Chile	Peso	1,163,880	—	—	—	1,163,880
China	Yuan	1,329,700	—	—	658,171	1,987,871
Colombia	Peso	352,700	—	—	—	352,700
Costa Rica	Colon	202,750	—	—	—	202,750
Dominican Republic	Peso	198,000	—	—	—	198,000
EAFEA	NA	—	—	—	16,963,391	16,963,391
Europe	Euro	33,591,675	—	—	234,381,849	267,973,524
Guatemala	Quetzal	184,900	—	—	—	184,900
Hong Kong	Dollar	—	—	—	515,261	515,261
India	Rupee	123,518	—	—	—	123,518
Israel	Shekel	95,774	—	—	1,393,393	1,489,167
Jamaica	Dollar	215,625	—	—	—	215,625
Japan	Yen	2,664,341	—	—	—	2,664,341
Mexico	Peso	3,478,915	—	2,031,073	1,909,348	7,419,336
Norway	Krone	1,650,513	—	—	—	1,650,513
Panama	Balboa	551,504	—	107,875	—	659,379
Paraguay	Guarani	547,375	—	—	—	547,375
Peru	Inti	549,200	—	191,188	—	740,388
Singapore	Dollar	204,778	—	—	—	204,778
		<u>\$ 59,119,597</u>	<u>6,176,904</u>	<u>2,474,155</u>	<u>257,907,040</u>	<u>325,677,696</u>

(g) Pledged Securities

As of September 30, 2015, the Nation pledged a \$5,404,242 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 \$30,860,400 represent the majority of the governmental activities restricted accounts receivable balance at September 30, 2015.

(b) Notes Receivable with Navajo Nation Gaming Enterprise

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

On April 3, 2012, several older note receivables were consolidated 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 \$200,000,000. The note requires interest only payments from the closing date (April 3, 2012) to June 30, 2013. Thereafter, the loan requires interest

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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, 2015, the principal balance is \$212,078,098.

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. Operating expenses and lease payments are paid out prior to NNGE paying the scheduled payments to the Nation. 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.

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.

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, 2015 is \$3,659,287.

The forbearance agreement dated January 9, 2015 resulted in an interest rate reduction to 8%. As a result of the interest rate reduction, the consolidated note below recorded actual interest income of \$19,662,887. Interest income that would have been reported if the note was not restructured would have been \$25,865,791.

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(c) ***Governmental Activities and Fiduciary Funds Notes and Accounts Receivable***

Notes receivable in the governmental activities and fiduciary funds comprise the following as of September 30, 2015:

	Governmental activities		Fiduciary funds	Total
	Restricted	Unrestricted		
Notes receivable:				
Permanent Fund	\$ 151,543,708	—	—	151,543,708
Chapter Government Nation				
Building Fund	8,316,048	—	—	8,316,048
Land Acquisition Fund	—	37,989,692	—	37,989,692
Scholarship Funds	5,230,861	—	—	5,230,861
General Fund:				
Navajo Rehabilitation Trust Fund	3,659,287	—	—	3,659,287
Handicapped Services Fund	—	—	1,263,277	1,263,277
Senior Citizen Services Fund	—	—	1,084,172	1,084,172
Vocational Education Fund	—	—	1,262,176	1,262,176
Veterans' Trust Fund	—	—	5,388,164	5,388,164
NNGE note receivable	168,749,904	37,989,692	8,997,789	215,737,385
Navajo Trust Fund	—	—	36,988	36,988
NTUA Key Bank Loan Fund	2,196,745	—	—	2,196,745
Nihibesso 401(k) fund	—	—	479,673	479,673
Receivable from Grantors:				
Grant Fund	30,860,400	—	—	30,860,400
Accounts receivable:				
General Fund	—	3,992,587	—	3,992,587
General Funds:				
Navajo Rehabilitation Trust Fund	79,363	—	—	79,363
Grant Fund	151,461	—	—	151,461
Permanent Fund	95,731	—	—	95,731
Navajo Tourism Fund	—	33,293	—	33,293
Water Rights Fund	—	15,000	—	15,000
Chapter Government Nation				
Building Fund	7,790	—	—	7,790
Office Supply Center	—	274,685	—	274,685
Group Health Self-Insurance Fund	1,171,219	—	—	1,171,219
Property and Casualty				
Insurance Fund	4,457	—	—	4,457
Workers' Compensation Insurance				
Fund	17,608	—	—	17,608
Contingency Management Fund	—	200	—	200
	<u>\$ 203,334,678</u>	<u>42,305,457</u>	<u>9,514,450</u>	<u>255,154,585</u>

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(d) Note Receivable with Navajo Tribal Utility Authority

The note receivable in the governmental funds represents a loan to the Navajo Tribal Utility Authority for the construction of utility infrastructure. Payment on the note receivable is based on the debt service schedule of the NTUA note payable. As of September 30, 2015, the note balance is \$2,196,745.

(e) Notes Receivable in Business-Type Activity Funds

Notes receivable for business-type activities consist of the following as of September 30, 2015:

Business industrial development fund:	
Big business loans	\$ 2,194,908
Small business loans	2,566,065
Micro loan program	154,724
	<u>4,915,697</u>
Less allowance for doubtful notes:	
Big business loans	(1,723,975)
Small business loans	(2,457,363)
Micro loans	(135,303)
	<u>599,056</u>
Business industrial development fund loans, net	
Loan fund:	
Home loans	8,550,603
Personal loans	1,921,159
Veterans' loans	697,070
	<u>11,168,832</u>
Less allowance for doubtful notes:	
Home loans	(649,319)
Personal loans	(164,972)
Veterans' loans	(470,272)
	<u>9,884,269</u>
Loan fund loans, net	
Notes receivable, net	10,483,325
Less portion due within one year	3,540,393
Notes receivable due in more than one year	<u><u>\$ 6,942,932</u></u>

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(4) Capital Assets

A summary of changes in capital assets for the year ended September 30, 2015 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	1,108,164	—	—	90,481,425
Construction in progress	8,768,691	30,101,680	—	(5,228,105)	33,642,266
Total capital assets not being depreciated	<u>98,141,952</u>	<u>31,209,844</u>	<u>—</u>	<u>(5,228,105)</u>	<u>124,123,691</u>
Capital assets being depreciated:					
Building and improvements	374,841,957	3,436,396	—	5,228,105	383,506,458
Equipment	72,814,248	6,679,105	(79,894)	—	79,413,459
Furniture and fixtures	6,103,622	272,649	—	—	6,376,271
Vehicles	105,415,694	4,240,988	(6,171,863)	—	103,484,819
Total capital assets being depreciated	<u>559,175,521</u>	<u>14,629,138</u>	<u>(6,251,757)</u>	<u>5,228,105</u>	<u>572,781,007</u>
Less accumulated depreciation:					
Building and improvements	74,755,517	9,624,246	—	—	84,379,763
Equipment	53,181,844	4,700,141	(79,894)	—	57,802,091
Furniture and fixtures	2,102,449	856,051	—	—	2,958,500
Vehicles	92,999,917	6,343,082	(6,146,339)	—	93,196,660
Total accumulated depreciation	<u>223,039,727</u>	<u>21,523,520</u>	<u>(6,226,233)</u>	<u>—</u>	<u>238,337,014</u>
Depreciable capital assets, net	<u>336,135,794</u>	<u>(6,894,382)</u>	<u>(25,524)</u>	<u>5,228,105</u>	<u>334,443,993</u>
Governmental activities, capital assets, net	<u>\$ 434,277,746</u>	<u>24,315,462</u>	<u>(25,524)</u>	<u>—</u>	<u>458,567,684</u>

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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	20,134,916	600,000	—	20,734,916
Equipment	1,701,488	55,415	—	1,756,903
Total depreciable capital assets	21,836,404	655,415	—	22,491,819
Less accumulated depreciation for:				
Buildings	8,326,723	343,326	—	8,670,049
Equipment	980,052	62,711	—	1,042,763
Total accumulated depreciation	9,306,775	406,037	—	9,712,812
Depreciable capital assets, net	12,529,629	249,378	—	12,779,007
Business-type activities, capital assets, net	\$ 13,269,048	249,378	—	13,518,426

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Depreciation expense was charged to functions as follows:

Governmental activities:	
General government	\$ 1,238,218
Economic development and planning	301,378
Community and rural development	1,965,290
Education and training	932,565
Natural resources	1,298,789
Public safety	5,769,803
Health and welfare	2,192,578
Culture and recreation	207,957
Transportation	4,540,779
Internal service funds	3,076,163
Total governmental activities depreciation expense	<u>\$ 21,523,520</u>
Business-type activities:	
Business and industrial development fund	\$ 313,562
Parks and recreation	86,715
Tribal ranch	5,760
Total business-type activities depreciation expense	<u>\$ 406,037</u>

(5) Interfund Activity

The composition of interfund activity as of September 30, 2015 is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Grant Fund	Grant expenditures	\$ 17,756,253
			<u>\$ 17,756,253</u>

At September 30, 2015, 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	\$ (2,098,449)	(2,120,354)
Air Transportation Fund	(3,531,604)	(1,768,417)
Navajo Trust Fund	(477,804)	(58,345)

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		
	General	Parks and	Total	Purpose
	Fund	Recreation		
		Fund		
Transfers to:				
Contingency Management Fund	\$ 2,566,649	—	2,566,649	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
Fish and Wildlife	818,765	—	818,765	Operating
Navajo Transit Fund	2,094	—	2,094	Operating
Sihasin Fund	491,043,289	—	491,043,289	Operating
4th of July Celebration Fund	—	325,870	325,870	Provide support
Annual Navajo Nation Fair	—	1,020,471	1,020,471	Provide support
Total	<u>\$ 499,930,797</u>	<u>1,346,341</u>	<u>501,277,138</u>	

(6) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of September 30, 2015 are as follows:

	Vendors	Salaries and	Construction	Other	Total
		benefits	contract		
			payables		
Governmental activities:					
General Fund	\$ 10,348,191	15,988,935	1,151,249	4,993,156	32,481,531
Grant Fund	9,211,891	4,500,687	729,648	—	14,442,226
Permanent Fund	2,796,452	10,479	—	—	2,806,931
Aggregate nonmajor funds	9,823,409	298,174	2,235,630	4,370,967	16,728,180
Internal Service Funds	570,508	169,169	133,262	838,931	1,711,870
Total governmental activities	<u>\$ 32,750,451</u>	<u>20,967,444</u>	<u>4,249,789</u>	<u>10,203,054</u>	<u>68,170,738</u>
Business-type activities:					
Enterprise funds	\$ 433,201	158,279	29,019	104,943	725,442

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(7) Long-Term Liabilities

The Nation has four outstanding notes payable as of September 30, 2015. These notes payable are recorded in the governmental activities Section of the government-wide financial statements:

Note payable to bank – 5.20% (General obligation loan)	\$ 53,282,302
Note payable to bank – 1.5% plus LIBOR (NTUA)	2,342,684
Note payable to bank – 3.683% and 2.432% (FMIS)	<u>5,746,690</u>
Total payable	<u>\$ 61,371,676</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
General obligation loan:			
2016	\$ 53,282,302	—	53,282,302
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
NTUA:			
2016	\$ 925,762	31,459	957,221
2017	940,805	16,119	956,924
2018	<u>476,117</u>	<u>2,270</u>	<u>478,387</u>
	<u>\$ 2,342,684</u>	<u>49,848</u>	<u>2,392,532</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
FMIS:			
2016	\$ 847,562	135,182	982,744
2017	869,164	113,580	982,744
2018	891,326	91,418	982,744
2019	914,063	68,681	982,744
Thereafter	<u>2,224,575</u>	<u>68,494</u>	<u>2,293,069</u>
	<u>\$ 5,746,690</u>	<u>477,355</u>	<u>6,224,045</u>

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 was due July 1, 2015. On July 1, 2015, the Nation entered into a senior unsecured general obligation tax-exempt

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loan in the amount of \$53,646,562 to refinance the 2010 BAB loan. The loan requires monthly principal payments of approximately \$180,000. The loan was refinanced subsequent to year-end with a general obligation bond (note 14).

On September 30, 2015, 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 loan will be repaid with the proceeds received from NTUA.

On December 30, 2014, the Nation drew down \$6,300,000 on its unsecured general obligation credit facility with Key Bank. The note carries a tax-exempt fixed rate of 2.26% and a taxable fixed rate of 3.42%. The loan requires monthly payments, which total \$81,895. The final payment is due September 1, 2021.

Changes in long-term liabilities for the year ended September 30, 2015 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	\$ 57,749,445	6,300,000	2,677,769	61,371,676	55,055,626
Compensated absences	14,588,697	13,744,274	13,782,960	14,550,011	13,782,960
Net pension liability	185,426,386	81,672,665	48,786,454	218,312,597	—
Claims and judgments	18,805,763	2,566,649	7,327,348	14,045,064	—
Governmental activities long-term liabilities	<u>\$ 276,570,291</u>	<u>104,283,588</u>	<u>72,574,531</u>	<u>308,279,348</u>	<u>68,838,586</u>
Business-type activities:					
Compensated absences	\$ 250,253	198,693	274,655	174,291	174,291
Net pension liability	3,093,906	1,364,423	815,706	3,642,623	—
Business-type activities long-term liabilities	<u>\$ 3,344,159</u>	<u>1,563,116</u>	<u>1,090,361</u>	<u>3,816,914</u>	<u>174,291</u>

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

(8) Retirement Plans

The Nation has implemented GASB Statement No. 68, *Accounting and Reporting for Pensions* (GASB Statement No. 68), for the fiscal year ending September 30, 2015. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25* (GASB Statement No. 67), and requires that employers report a net pension liability

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(NPL) and related pension expense as determined by the plan under the requirements contained in GASB Statement No. 67.

Implementation of this new financial reporting standard required that the Nation restate its beginning net position as of October 1, 2014 for the cumulative effects of applying this statement. In addition, in accordance with the provisions of these statements, beginning balances of deferred pension outflows of resources and deferred pension inflows of resources have not been reported.

The Nation implemented GASB Statement No. 67 for the fiscal year ending September 30, 2014. This statement replaced the requirements of GASB Statement No. 25, *Financial Reporting for Defined Benefit Plans and Note Disclosures for Defined Contribution Plans* (GASB Statement No. 25), and specified the required approach to measuring the pension liability of employers and nonemployer contributing entities for benefit provided through the pension plan. GASB Statement No. 67 required plans to calculate a NPL to be measured as the total pension liability less the amount of the pension plan's fiduciary net position.

This new Statement does not affect the way that a government may choose to fund their pension obligations. While GASB Statement No. 68 changes the amount of the pension liability that is reported on the financial statements, governments may continue to fund their plan by calculating an actuarially determined contribution and measuring their funded status as it relates to that actuarially determined contribution. GASB Statement No. 68 requires certain disclosures if an actuarially determined contribution has been calculated. The disclosures, which include schedules presenting the actuarially determined contribution, the amount of those contributions recognized by the plan, the difference between the two amounts, the amount of covered-employee payroll, and the contributions as a percentage of covered-employee payroll are included as Required Supplementary Information and Notes to Required Supplementary Information.

In order to provide the necessary disclosures that are required under the various GASB Statements, the disclosures below are separated into the following three sections:

- The first section offers a description of the plan.
- The second section provides information regarding the pension plans that are required by GASB Statement Nos. 67 and 68 – changes in net pension liability, balances of deferred pension outflows of resources and deferred pension inflows of resources (including prospective schedules of amortization of the deferred outflows and inflows), and the calculation of pension expense for the year.

1. Disclosure about the Defined-Benefit Retirement Plan

This section provides the disclosures about the defined-benefit retirement plan required by GASB Statement No. 67, including the plan description, benefits, and membership at September 30, 2015.

Plan Description

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.

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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.

At September 30, 2015, the Nation reported the following membership in the Plan:

	<u>Total</u>
Retired participants	\$ 3,342
Terminated vested participants	4,638
Active participants	<u>4,529</u>
Total covered employees	\$ <u>12,509</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. For the year ended September 30, 2015, the required contribution rate approximated 25% of covered payroll.

2. Employer and Defined-Benefit Plan Reporting of Pension Liabilities, Pension Expenses, Deferred Outflows of Resources, and Deferred Inflows of Resources Related to Pension Plans as required by GASB Statement Nos. 67 and 68

This section includes the information that is required to be reported by employers per GASB Statement No. 68. It reports information regarding the calculation of the Nation's net pension liability, including changes during the measurement period in both total pension liability and net position; balances in the various components of deferred pension outflows of resources and deferred pension inflows of resources and the amounts to be recognized in pension expense in future periods; and the calculation of pension expense.

This section also includes the information that is required to be presented by GASB Statement No. 67, reporting on the financial statements for the defined-benefit plans for the year ended September 30, 2015. Separate valuations were performed by the Nation's actuary to calculate the total pension liability in accordance with this standard for financial reporting by pension plan and calculates the net pension liability. The plan elected to base the valuations on plan data as of October 1, 2014 and used update procedures to roll forward the total pension liability to the pension plan's fiscal year-end of September 30, 2015. In addition to presenting the NPL, this section also includes information on the actuarial assumptions used in the valuation, the discount rate that was used to calculate the NPL, and disclosures as to the sensitivity of the NPL to changes in the discount rate.

Reporting Date, Measurement Date, and Valuation Date

Net pension liability, deferred pension outflows of resources, deferred pension inflows of resources, and pension expense are all presented as of the Nation's reporting date (September 30, 2015) and for the Nation's reporting period (the fiscal year ended September 30, 2015). These amounts are measured as of the

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measurement date and for the measurement period (the period between the prior and current measurement dates). GASB Statement No. 68 requires that the current measurement date be no earlier than the end of the employer's prior fiscal year. For the reporting date as of September 30, 2015, the Nation has chosen to use the end of the current fiscal year-end as the measurement date, and the fiscal year ended September 30, 2015 as the measurement period.

The total pension liability is determined by an actuarial valuation performed as of the measurement date, or by the use of update procedures to roll forward to the measurement date amounts from an actuarial valuation as of a date no more than 30 months and one day earlier than the employer's most recent fiscal year-end. The Nation has elected to apply update procedures to roll forward amounts from an actuarial valuation performed as of October 1, 2014, to the measurement date of September 30, 2015.

Net Pension Liability

The net pension liability is measured as the portion of the actuarial present value of projected benefit payments that is attributable to past periods of employee service, net of the pension plan's fiduciary net position. The changes in the components for the measurement period are as follows:

	Increase (decrease)		
	Total pension liability (a)	Plan fiduciary net position (b)	Net pension liability (a) – (b)
Balance at September 30, 2014	\$ 837,618,395	648,066,457	189,551,938
Changes for the year:			
Service cost	12,938,675	—	12,938,675
Interest	57,581,606	—	57,581,606
Differences between expected and actual experience	4,910,604	—	4,910,604
Contributions – employer	—	49,975,235	(49,975,235)
Investment income (loss) net of investment expense	—	(6,703,063)	6,703,063
Benefit payments, including refunds of employee contributions	(31,179,384)	(31,179,384)	—
Administrative expenses	—	(1,157,182)	1,157,182
Other changes	302,000	—	302,000
Net changes	44,553,501	10,935,606	33,617,895
Balance at September 30, 2015	\$ 882,171,896	659,002,063	223,169,833

Additional information regarding the changes in the net pension liability for the year ended September 30, 2015 can be found in the Required Supplementary Information immediately following these notes to the financial statements.

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Deferred Pension Outflows of Resources and Deferred Pension Inflows of Resources

Most changes in the net pension liability are included in pension expense during the year of change. Changes resulting from current period service cost, interest on the total pension liability, and changes in benefit terms are required to be included in pension expense immediately. Similarly, projected earnings on the pension plan's investments are also required to be included in the determination of pension expense immediately.

The effects of certain other changes in the net position liability are required to be included in pension expense over the current and future periods, depending on the nature of the change.

The effect of the net pension liability of differences between the projected earnings on pension plan investments and actual experience with regard to those earnings is required to be included in pension expense in a systematic and rational manner over a closed period of five years, beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. This treatment arises from the concept that these changes result from use of estimates, where probabilities of events range from zero to 100%, while actual events either occur or do not occur. Therefore, differences between some estimates and actual experience will occur with every measurement that incorporates future events.

The effects on the total pension liability of (1) changes of economic and demographic assumptions or of other inputs and (2) differences between expected and actual experience are required to be included in pension expense in a systematic and rational manner over a closed period equal to the average of the expected remaining service lives of all employees that are provided with benefits through the pension plan (active employees and inactive employees), beginning with the current period. Changes in the net pension liability not included in pension expense are required to be reported as deferred outflows of resources or deferred inflows of resources related to pensions. This treatment arises from the concept that pensions arise from an exchange between employer and employee of salaries and benefits for employee service each period and that these transactions and related pension measurements are viewed in the context of ongoing, career-long employment relationships.

As of September 30, 2015, the Nation reported the following deferred pension outflows of resources and deferred inflows of resources:

Source	Deferred outflows of resources	Deferred inflows of resources
Differences between expected and actual experience	\$ 3,095,224	—
Changes of assumptions	—	—
Net differences between projected and actual earnings on plan investments	42,139,702	—
Total	\$ 45,234,926	—

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The deferred pension outflows of resources and deferred pension inflows of resources, as discussed above, will be recognized in pension expense as follows:

<u>Year ended September 30</u>	<u>Amount</u>
2016	\$ 12,350,305
2017	11,814,769
2018	10,534,925
2019	<u>10,534,927</u>
Total	<u>\$ 45,234,926</u>

Pension Expense

As discussed above, most changes in the net pension liability are included in pension expense in the year of change, including changes resulting from current period service cost, interest on the total pension liability, change in benefit terms, and projected earnings on the pension plan's investments. Other changes in net pension liability are recorded as deferred pension outflows of resources and deferred pension inflows of resources, and included in pension expense on a systematic and rational manner over current and future periods.

Pension expense for the year ended September 30, 2015, is as follows:

Service cost	\$ 12,938,675
Interest on the total pension liability	57,581,606
Differences between expected and actual experience	1,815,380
Changes of assumptions	—
Employee contributions	—
Projected earnings on pension plan investments	(45,971,564)
Differences between projected and actual earnings on plan investments	10,534,925
Pension plan administrative expense	1,157,182
Other changes in fiduciary net position	<u>302,000</u>
Total pension expense	<u>\$ 38,358,204</u>

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Actuarial Methods and Assumptions

Methods and assumptions used to determine pension expense and total pension liability are based on a valuation date of September 30, 2015. The chart below summarizes these methods and assumptions.

Valuation date:	Actuarially determined contribution rates are calculated as of September 30, one year prior to the end of the fiscal year in which contributions are reported
Methods and assumptions used to determine contribution rates:	
Actuarial cost method	Entry age normal
Asset valuation method	Fair value
Actuarial assumptions:	
Inflation	0%
Salary increases	Age-graded scale 3.5%–7.0%
Investment rate of return	7%
Retirement age	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	1983 Group Annuity Mortality table (sex distinct) without projection
Disabled	1985 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.

Additional information regarding changes in the net pension liability for the year ended September 30, 2015 can be found in the Other Information section immediately following these notes to the financial statements.

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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, 2015 (see the discussion of the pension plan's investment policy):

Asset class	Target allocation	Long-term expected real rate of return
Domestic equity	41.00%	7.18%
International equity	12.00	7.88
Fixed income	22.00	4.36
Real estate	10.00	7.33
Global tactical asset allocation	15.00	6.50

Nominal long-term expected rates of return for these asset classes are equal to the sum of the above expected long-term real rates and the expected long-term inflation rate of 0%.

Discount Rate

The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions will continue to be made at the actuarially determined contribution rates. Based on these assumptions, the fiduciary net position was projected to be available to make all projected future benefit payments to 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.

The annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses for the fiscal year ended September 30, 2015 was -1.03%. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.

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 rates determined above, 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 or one percentage point higher than the current rate:

	1 percentage decrease (6%)	Current discount rate (7%)	1 percentage increase (8%)
Nation's net pension liability	\$ 324,829,984	223,169,833	137,518,410

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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 to discontinue matching contributions upon notice to participants; the employer also has the right to terminate the plan. Employer contributions were \$2,274,865 and employee contributions were \$5,342,499 for the year ended September 30, 2015.

(9) 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, 2015 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, 2015 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 rates in effect at September 30, 2015 are 18 cents per gallon of gasoline and 25 cents per gallon of diesel fuel.

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(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, 2015 has been 4%.

(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, 2015 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, 2015 was 8%.

(h) Junk Food Tax

Effective October 1, 2014, a junk food tax was imposed on applicable gross receipts from all minimal-to-no nutritional value food items sold. The tax will be reviewed by the Navajo Nation Council at the end of calendar year 2020 for extension. The rate from the imposition of the tax through September 30, 2015 has been 2%. 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.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2015

Tax revenues for the year ended September 30, 2015 are summarized as follows:

	General Fund	Navajo Tourism Fund	Navajo Roads Fund	Healthy Dine Act Fund	Tax Suspense Fund	Total
Business activity tax	\$ 6,776,032	—	—	—	138,286	6,914,318
Possessory interest tax	34,235,494	—	—	—	698,684	34,934,178
Fuel excise tax	—	—	9,758,309	—	199,149	9,957,458
Oil and gas severance tax	6,145,986	—	—	—	125,428	6,271,414
Sales tax	43,507,360	—	—	—	1,094,296	44,601,656
Tobacco products tax	385,266	—	—	—	7,862	393,128
Hotel occupancy tax	—	1,899,611	—	—	38,898	1,938,509
Junk food tax	—	—	—	327,402	6,682	334,084
Total tax revenue	\$ 91,050,138	1,899,611	9,758,309	327,402	2,309,285	105,344,745

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 \$10,099,966 in tax revenue for the year ended September 30, 2015.

(10) Commitments and Contingent Liabilities

The following are the significant financial commitments and contingent liabilities of the Nation at September 30, 2015, in addition to the items further described in notes 2, 7, 8, 11, and 12:

(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 \$140,690.

(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.

(11) 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.

THE NAVAJO NATION

Notes to Basic Financial Statements

September 30, 2015

(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 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.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2015

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 Owelty case, the U.S. Ninth Circuit Court of Appeals remanded this case to the U.S. District Court. In the Owelty case, a motion for rehearing was filed by the Nation, but was denied by the Court of Appeals in late September 1997. In the Owelty 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 Owelty. 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 Owelty 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 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 2015. 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.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2015

(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

(12) 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.

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, 2015, premiums of \$158,692 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 NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2015

The amounts and changes in the Nation's Risk Management program claims payable for the years ended September 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Property and Casualty Self-Insurance (Risk Management) Fund:		
Claims payable, beginning of year	\$ 4,324,247	2,026,240
Current year claims and changes in estimates	(1,648,610)	4,633,902
Claim payments	<u>(951,923)</u>	<u>(2,335,895)</u>
Claims payable, end of year	<u>\$ 1,723,714</u>	<u>4,324,247</u>
Workers' Compensation Self-Insurance Fund:		
Claims payable, beginning of year	\$ 1,713,490	1,713,490
Current year claims and changes in estimates	(272,474)	2,081,036
Claim payments	<u>(1,018,074)</u>	<u>(2,081,036)</u>
Claims payable, end of year	<u>\$ 422,942</u>	<u>1,713,490</u>
Group Health Benefit Self-Insurance Fund:		
Claims payable, beginning of year	\$ 6,600,000	8,934,000
Current year claims and changes in estimates	27,887,447	24,352,755
Claim payments	<u>(28,107,447)</u>	<u>(26,686,755)</u>
Claims payable, end of year	<u>\$ 6,380,000</u>	<u>6,600,000</u>

(13) Extraordinary Item – Settlement

On April 3, 2014, the United States announced a settlement resolving the claims against the Anadarko Petroleum Corp. and Kerr McGee Corp., which was then subject to a period of public comment and judicial approval. On November 10, 2014, the district court approved the settlement and without any appeals presented to the court, the settlement agreement went into effect on January 21, 2015.

Under the settlement agreement, the defendants paid \$5.15 billion, plus interest from April 3, 2014, to the trust. The recovery will be paid to the United States, state governments, the Navajo Nation, and environmental response trusts created to clean up contaminated property. In 2015, the Navajo Nation received \$47.8 million which represents its share of the settlement.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2015

(14) Subsequent Event

In November 2015, the Nation issued a general obligation refunding bond in the amount of \$52,900,000 to refinance a loan with a financial institution under the Build America Bond program. The bond requires annual mandatory sinking account payments. The first mandatory sinking account payment in the amount of \$2,610,000 is due in fiscal year 2017. Interest payments are due semiannually.

Information for bond maturity is as follows:

<u>Maturity date (December 1)</u>	<u>Principal amount</u>	<u>Interest rate</u>
2020	\$ 14,205,000	2.90%
2022	6,345,000	4.00
2025	10,610,000	5.00
2030	21,740,000	5.50
	<u>\$ 52,900,000</u>	

On June 21, 2016, the Nation approved the restricting term sheet with the Navajo Nation Gaming Enterprise to terminate the previous forbearance agreement. The restricted loan was modified to a 15 year maturity with an option to renew for an additional 15 years with an amortization of 30 years at a fixed interest rate of 5.93%.

THE NAVAJO NATION

General Fund

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

Year ended September 30, 2015

	Original budget	Final budget	Actual (budgetary basis)	September 30, 2015 Designated fund balance carryover	Budget variance favorable (unfavorable)
Revenues					
Natural resource revenue:					
Oil and gas	\$ 50,567,000	50,567,000	34,586,850	—	(15,980,150)
Mining	54,683,000	54,683,000	59,899,623	—	5,216,623
Tax revenue, net (note 9)	66,052,000	66,052,000	91,050,138	—	24,998,138
Land, buildings, business site, and right-of-way revenue	57,918,000	57,918,000	64,181,664	—	6,263,664
Interest and dividends	800,000	800,000	1,023,276	—	223,276
Net decrease in fair value of investments	—	—	111,183	—	111,183
Other revenue	500,000	500,000	4,153,840	—	3,653,840
Transfer to permanent fund	(27,710,000)	(27,710,000)	(30,602,478)	—	(2,892,478)
Transfer of current year revenues (expenses)	(25,055,000)	(25,055,000)	(29,573,694)	—	(4,518,694)
Total revenues	<u>177,755,000</u>	<u>177,755,000</u>	<u>194,830,402</u>	<u>—</u>	<u>17,075,402</u>
Expenditures					
General government	98,818,155	113,571,422	92,709,602	6,115,457	14,746,363
Economic development and planning	4,986,378	5,224,071	5,006,555	—	217,516
Community and rural development	44,467,794	57,206,170	49,272,895	3,297,348	4,635,927
Education and training	22,684,215	30,911,800	25,064,616	—	5,847,184
Natural resources	21,077,277	27,061,652	23,618,040	—	3,443,612
Public safety	9,854,729	10,414,075	10,009,460	—	404,615
Health and welfare	17,017,188	18,060,068	17,007,111	—	1,052,957
Culture and recreation	1,072,653	1,145,545	1,142,501	—	3,044
Total expenditures	<u>219,978,389</u>	<u>263,594,803</u>	<u>223,830,780</u>	<u>9,412,805</u>	<u>30,351,218</u>
Other Financing Sources (Uses)					
Transfers	(5,500,000)	(5,500,000)	(499,930,797)	—	(494,430,797)
Total other financing uses	<u>(5,500,000)</u>	<u>(5,500,000)</u>	<u>(499,930,797)</u>	<u>—</u>	<u>(494,430,797)</u>
Net change under budgetary basis	<u>\$ (47,723,389)</u>	<u>(91,339,803)</u>	<u>(528,931,175)</u>	<u>(9,412,805)</u>	<u>(447,004,177)</u>
Reconciliation of budgetary basis net change to net change from schedule 6:					
Add beginning encumbrances			10,212,465		
Less ending encumbrances			(9,144,719)		
Modified accrual budget basis net change in fund balance			<u>\$ (527,863,429)</u>		

See accompanying independent auditors' report.

THE NAVAJO NATION

Pension Other Information

Year ended September 30, 2015

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

	2015	2014	2013	2012	2011	2010
Total pension liability:						
Service cost	\$ 12,939	14,222				
Interest	57,582	54,812				
Changes of benefit terms	302	5,300				
Differences between expected and actual experience	4,911	—				
Changes of assumptions	(31,180)	(28,415)				
Benefit payments, including refunds of member contributions						
Net change in total pension liability	44,554	45,919				
Total pension liability – beginning	837,618	791,699				
Total pension liability – ending (a)	\$ 882,172	837,618				
Plan fiduciary net position:						
Contributions – employer	\$ 49,975	47,750				
Contributions – member	—	—				
Net investment income (loss)	(6,703)	63,712				
Benefit payments, including refunds of member contributions	(31,179)	(28,415)				
Administrative expense	(1,157)	(1,114)				
Other	—	—				
Plan fiduciary net position – beginning	10,936	81,933				
Plan fiduciary net position – ending (b)	648,066	566,133				
Nation's net pension liability – ending (a) – (b)	659,002	648,066				
Plan fiduciary net position as a percentage of the total pension liability	\$ 223,170	189,552				
Covered-employee payroll	74.70%	77.37%				
Nation's net pension liability as a percentage of covered-employee payroll	\$ 168,042	179,682				
	132.81%	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: 2014: Based on a review of the plan performance the discount rate was changed from 8% to 7%.

2015: Effective date of the new judges formula was changed from 10/1/02 to 1/29/03.

See accompanying independent auditors' report.

THE NAVAJO NATION

Pension Other Information

Year ended September 30, 2015

Schedule of the 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
2015	49,723	49,975	(252)	168,042	30%
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 and 68 is not required)

Notes to schedule:

Valuation date:

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

Methods and assumptions used to determine contribution rates:

Actuarial cost method
Asset valuation methodEntry Age Normal
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) without projection
1985 Pension Disability Mortality table (sex distinct)

See accompanying independent auditors' report.

THE NAVAJO NATION

Pension Other Information

Year ended September 30, 2015

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

Fiscal year ended	Annual money-weighted rate of return, net of investment expense
2015	(1.03)
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
Modified Accrual Budget Basis
September 30, 2015

	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	Shashin Fund	License Plate Revenue Fund	Total General Funds
Assets										
Cash and cash equivalents	\$ 56,265,775	12,000	135,019	43,345	597,956	43,043	1,334,613	350,569,449	438,515	409,439,715
Investments (including \$5,404,242 of pledged securities)	63,675,836	3,239,850	4,362,127	740,852	—	13,963,746	—	137,063,696	—	223,046,107
Accounts receivable, net	3,992,587	—	79,363	—	—	—	—	—	—	4,071,950
Accrued interest receivable	362,127	5,320	482	79	—	6,532	—	357,696	—	732,236
Note receivable	—	—	3,659,287	—	—	—	—	—	—	3,659,287
Due from other funds	17,756,253	—	—	—	—	—	—	—	—	17,756,253
Restricted assets	518,368	—	—	—	—	—	—	—	—	518,368
Total assets	\$ 142,570,946	3,257,170	8,236,278	784,276	597,956	14,013,321	1,334,613	487,990,841	438,515	659,223,916
Liabilities and Fund Balances										
Liabilities:										
Accounts payable	\$ 4,844,429	—	157	—	—	—	—	—	—	4,844,586
Accrued liabilities	19,140,919	—	6,209	—	234	130,382	—	—	—	19,277,744
Unearned revenue	2,305,279	—	1,604,526	—	—	—	—	—	—	3,909,805
Total liabilities	26,290,627	—	1,610,892	—	234	130,382	—	—	—	28,032,135
Fund balances:										
Nonspendable:	—	—	3,659,287	—	—	—	—	—	—	3,659,287
Long-term receivables	—	—	—	—	—	—	—	—	—	—
Spendable:										
Restricted for:										
Restricted assets	518,368	—	—	—	—	—	—	—	—	518,368
Economic development loans	5,404,242	3,257,170	—	—	—	—	—	—	—	8,661,412
Other capital projects	—	—	2,966,099	—	—	—	—	—	—	2,966,099
Committed for:										
Other capital projects	—	—	—	—	—	13,882,939	—	487,990,841	—	501,873,780
Other purposes	9,412,805	—	—	784,276	597,722	—	1,334,613	—	438,515	12,367,931
Assigned to:										
Other purposes	10,035,506	—	—	—	—	—	—	—	—	10,035,506
Unassigned	—	—	—	—	—	—	—	—	—	—
General Fund	90,909,398	—	—	—	—	—	—	—	—	90,909,398
Total fund balances	116,280,319	3,257,170	6,625,386	784,276	597,722	13,882,939	1,334,613	487,990,841	438,515	631,191,781
Total liabilities and fund balances	\$ 142,570,946	3,257,170	8,236,278	784,276	597,956	14,013,321	1,334,613	487,990,841	438,515	659,223,916

See accompanying independent auditors' report.

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

Modified Accrual Budget Basis
Year ended September 30, 2015

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 Mismangement Litigation Trust Fund	Sihasin Fund	License Plate Revenue Fund	Total General Funds
Natural resource revenue:										
Oil and gas	\$ 34,586,850	—	—	—	—	—	—	—	—	34,586,850
Mining	59,899,623	—	—	—	—	—	—	—	—	59,899,623
Tax revenue, net	91,050,138	—	—	—	—	—	—	—	—	91,050,138
Land, buildings, business site, and right-of-way revenue	64,181,664	—	—	—	—	—	—	—	—	64,181,664
Interest and dividends	1,023,276	11,921	338,837	471	—	12,237	—	731,339	—	2,118,081
Net decrease in fair value of investments	111,183	—	—	—	—	—	—	(3,783,787)	—	(3,672,604)
Other revenue	4,153,840	—	—	—	20	—	—	—	37,332	4,191,192
Statutory allocation to permanent fund	(30,602,478)	—	—	—	—	—	—	—	—	(30,602,478)
Statutory allocation of current year revenues	(29,573,694)	—	—	—	—	—	—	—	—	(29,573,694)
Total revenues	194,830,402	11,921	338,837	471	20	12,237	—	(3,052,448)	37,332	192,178,772
Expenditures										
Current:										
General government	85,153,445	—	—	—	—	—	—	—	—	85,153,445
Economic development and planning	4,922,427	—	—	—	—	—	—	—	—	4,922,427
Community and rural development	48,517,800	—	431,570	—	—	9,139	—	—	—	48,958,509
Education and training	25,074,166	—	—	—	—	—	—	—	—	25,074,166
Natural resources	22,238,157	—	—	—	22,886	—	—	—	—	22,261,043
Public safety	9,767,267	—	—	—	—	—	—	—	—	9,767,267
Health and welfare	16,853,943	—	—	—	—	—	—	—	—	16,853,943
Culture and recreation	1,122,481	—	—	—	—	—	—	—	—	1,122,481
Capital outlay	9,113,348	—	—	—	—	—	—	—	—	9,113,348
Total expenditures	222,763,034	—	431,570	—	22,886	9,139	—	—	—	223,226,629
Excess (deficit) of revenues over expenditures	(27,932,632)	11,921	(92,733)	471	(22,866)	3,098	—	(3,052,448)	37,332	(31,047,857)
Other Financing Sources (Uses)										
Transfers	(499,930,797)	—	—	—	—	2,000,000	1,500,000	491,043,289	—	(5,387,508)
Total other financing sources (uses)	(499,930,797)	—	—	—	—	2,000,000	1,500,000	491,043,289	—	(5,387,508)
Net change in fund balances (Exhibit E)	(527,863,429)	11,921	(92,733)	471	(22,866)	2,003,098	1,500,000	487,990,841	37,332	(36,435,365)
Fund balance, beginning 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
Fund balance, end of year	\$ 116,280,319	3,257,170	6,625,386	784,276	597,722	13,882,939	1,334,613	487,990,841	438,515	631,191,781

THE NAVAJO NATION
Combining Balance Sheet
Nonmajor Governmental Funds
Modified Accrual Budget Basis
September 30, 2015

Assets	Special revenue										Debt Service			Permanent Governmental Fund Balance
	Scholarship Fund	Navajo Tribal Protection Agency Fund	Tax Support Fund	Water Rights Fund	Navajo Indian Affairs Fund	Land Acquisition Fund	Gaming Development Fund	Gaming Distribution Fund	Public Safety Fund	DPG Operating Fund	Health Planning Act Fund	FNIS Key Budget Fund	NTUA Key Budget Fund	
Cash and cash equivalents	\$ 6,651,741	\$2,291,406	13,432,354	5,219,173	4,514,366	12,037,245	8,723,661	2,445,600	2,310,997	1,418,996	267,266	6,107,996	(151,559)	123,443,153
Investments	51,886,506	2,644,471	4,606,491	5,674,300	27,668,735	95,145,372	—	—	32,287,423	—	—	—	—	277,798,615
Accounts receivable	33,385	—	—	15,000	—	601,236	—	—	25,695	—	—	—	—	38,000
Accrued interest receivable	199,680	700	39,112	810	20,569	37,989,692	—	—	—	—	—	—	2,196,745	53,733,346
Notes receivable	5,228,861	—	—	—	—	—	—	—	—	—	—	—	—	5,228,861
Total receivables	5,429,541	34,307	39,112	15,810	20,569	38,591,218	8,723,661	2,445,600	25,695	—	—	6,107,996	2,045,186	55,061,895
Total assets	\$ 63,968,788	\$4,934,577	18,077,957	10,909,183	32,203,670	145,773,835	8,723,661	2,445,600	34,623,715	1,418,996	267,266	6,107,996	2,045,186	456,403,663
Liabilities and Fund Balance														
Accounts payable and accrued expenses	\$ 2,034,945	30,157	—	64,669	2,347,018	75,288	577,308	—	11,310,180	12,727	—	—	—	96,391
Total liabilities	2,034,945	30,157	—	64,669	2,347,018	75,288	577,308	—	11,310,180	12,727	—	—	—	16,728,180
Fund balance														
Nonspendable	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Permanent fund principal	—	—	—	—	—	—	—	—	—	—	—	—	2,045,186	58,066,518
Long-term receivables ¹	5,229,061	—	—	—	—	37,989,692	—	—	—	—	—	—	—	8,316,048
Special projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Construction	52,369,625	—	—	—	—	—	—	—	—	—	—	—	—	52,369,625
Other capital projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Other purposes	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total fund balance	4,333,357	6,294,097	18,077,957	10,844,314	29,846,652	107,708,855	8,146,333	2,445,600	23,313,535	1,406,269	267,266	6,107,996	2,045,186	137,965,507
Total liabilities and fund balance	\$ 63,968,788	\$4,934,577	18,077,957	10,844,314	32,203,670	145,773,835	8,723,661	2,445,600	34,623,715	1,418,996	267,266	6,107,996	2,045,186	456,403,639

See accompanying independent auditors' report.

THE NAVAJO NATION
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Normal Governmental Funds
Modified Accrual Budget Basis
Year ended September 30, 2015

	Special Revenue										Debt Service				Permanent	
	Scholarship Fund	Navajo Tourism Fund	Navajo National Environmental Protection Agency Fund	Tax Suspense Fund	Water Rights Fund	Navajo Roads Fund	Land Acquisition Fund	Gaming Development Fund	Gaming Revenue Distribution Fund	Judicial Facilities Fund	DPS Gaming Fund	Healthy Dine Tax Act	FMS Key Bank Loan Fund	NTUA Key Bank Loan Fund	Permanent Governmental Building Fund	Total
Revenues:																
Tax revenue	—	1,899,611	—	2,309,245	—	9,758,309	—	—	—	—	—	327,402	—	—	—	14,294,607
Interest and dividends	1,445,110	4,151	4,733	10,787	40,622	41,722	7,519,691	—	—	—	—	—	—	—	2,149,844	11,263,361
Revenue (expense) in fair value	(190,592)	—	—	—	—	—	(1,198,077)	—	—	—	—	—	—	—	(93,460)	(1,482,189)
Other revenue	622,417	1,910	—	—	1,082,354	18,651	76,722	9,258,010	—	1,229,925	624,000	—	—	—	41	12,914,030
Statutory allocation to permanent fund	—	(233,387)	—	—	—	(1,175,458)	—	—	—	—	—	(40,090)	—	—	—	(1,448,935)
Statutory allocation of current revenues	4,396,310	—	—	—	—	(587,729)	5,505,004	—	—	8,792,620	—	(20,046)	—	—	—	18,086,159
Total revenues	6,773,245	1,672,285	4,733	2,320,072	1,122,976	8,655,495	11,903,340	9,258,010	—	10,069,746	624,000	267,266	—	—	2,056,425	53,627,593
Expenditures:																
Current government operations:																
General and central development	—	—	—	—	—	—	—	8,522,460	—	—	—	—	—	—	—	8,522,460
Education and training	6,209,866	—	—	—	2,173,680	—	341,220	—	—	—	—	—	192,004	2,419,070	—	5,125,974
Natural resources	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	6,209,866
Public safety	—	—	1,503,709	—	—	—	—	—	—	6,879,154	287,731	—	—	—	—	1,503,709
Cultural preservation	—	1,107,913	—	—	—	—	—	—	—	—	—	—	—	—	—	1,107,913
Transportation	—	—	—	—	—	3,616,790	—	—	—	—	—	—	—	—	—	3,616,790
Capital outlay	—	—	—	—	—	6,628,634	1,108,164	—	—	22,342,347	—	—	—	—	—	30,079,145
Debt service – principal	—	—	—	—	—	—	—	—	—	2,089,739	—	—	—	—	—	2,089,739
Total expenditures	6,209,866	1,107,913	1,503,709	—	2,173,680	10,245,424	1,449,384	8,522,460	—	31,311,240	287,731	—	192,004	578,030	2,419,070	66,000,511
Excess (deficiency) of revenues over expenditures	63,379	564,372	(1,498,976)	2,320,072	(1,050,704)	(2,189,929)	10,453,956	735,550	—	(21,241,494)	336,269	267,266	(192,004)	(578,030)	(362,645)	(12,372,918)
Long-term debt issued	—	—	—	—	2,000,000	—	—	—	—	—	—	—	6,300,000	—	—	6,300,000
Treasury	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,000,000
Extraordinary item:																
Claim settlement	—	—	47,800,544	—	—	—	—	—	—	—	—	—	—	—	—	47,800,544
Net change in fund balance	63,379	564,372	46,301,568	2,320,072	949,296	(2,189,929)	10,453,956	735,550	—	(21,241,494)	336,269	267,266	6,107,996	(578,030)	(362,645)	43,727,626
Fund balance, beginning of year	61,870,464	5,729,725	8,602,852	15,757,885	9,895,218	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
Fund balance, end of year	\$ 61,933,843	\$ 6,294,097	\$ 44,904,420	\$ 18,077,957	\$ 10,844,514	\$ 29,856,652	\$ 145,698,547	\$ 8,146,353	\$ 2,445,600	\$ 23,313,535	\$ 1,406,269	\$ 267,266	\$ 6,107,996	\$ 2,045,186	\$ 68,333,248	\$ 439,675,483

See accompanying independent auditors' report.

THE NAVAJO NATION
Combining Statement of Net Position
Enterprise Funds
Modified Accrual Budget Basis
September 30, 2015

	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 Fair Fund	Tribal Ranch Fund	Total
Assets													
Current assets:													
Cash and cash equivalents	14,467,662	6,691,253	738,690	(2,098,449)	17,322,819	1,725,154	123,685	146,065	469,043	101,663	768,565	994,381	41,450,331
Investments	5,229,608	1,079,880	—	—	—	—	—	—	—	—	—	—	6,309,488
Receivables:													
Accrued interest receivable, net	1,724	637	—	—	—	—	—	—	—	—	—	—	2,361
Accounts receivable	13,650	—	—	24,770	—	—	—	—	7,486	—	25,000	43,757	114,663
Current portion of notes receivable	435,330	3,105,063	—	—	—	—	—	—	—	—	—	—	3,540,393
Total receivables	437,054	3,105,700	—	24,770	—	—	—	—	7,486	—	25,000	43,757	3,657,417
Total current assets	20,147,974	10,876,833	738,690	(2,073,679)	17,322,819	1,725,154	123,685	146,065	476,529	101,663	793,565	1,038,138	51,417,416
Noncurrent assets:													
Receivables:													
Notes receivable, net	163,726	6,779,206	—	—	—	—	—	—	—	—	—	—	6,942,932
Total noncurrent receivables	163,726	6,779,206	—	—	—	—	—	—	—	—	—	—	6,942,932
Capital assets:													
Land and land development costs	739,419	—	—	—	—	—	—	—	—	—	—	—	739,419
Buildings	12,089,679	—	2,544,119	—	6,101,118	—	—	—	—	—	—	—	20,734,916
Equipment	198,164	—	40,508	—	970,453	87,780	—	113,484	71,930	—	—	274,604	1,756,903
Total capital assets	13,027,262	—	2,584,627	—	7,071,551	87,780	—	113,484	71,930	—	—	274,604	23,231,238
Accumulated depreciation	5,586,124	—	2,584,627	—	1,239,400	50,160	—	16,212	10,051	—	—	236,238	9,712,812
Capital assets, net	7,441,138	—	—	—	5,832,151	37,620	—	97,272	61,879	—	—	48,366	13,518,426
Other assets	2,928,615	—	—	—	—	—	—	—	—	—	—	—	2,928,615
Total noncurrent assets	10,369,753	6,779,206	—	—	5,832,151	37,620	—	97,272	61,879	—	—	48,366	23,389,973
Total assets	\$ 30,681,453	\$ 17,656,039	\$ 738,690	\$ (2,073,679)	\$ 23,154,970	\$ 1,762,774	\$ 123,685	\$ 243,337	\$ 538,408	\$ 101,663	\$ 793,565	\$ 1,086,504	\$ 74,807,409
Deferred Outflow of Resources													
Pension related outflows	11,612	104,691	81,509	—	324,001	128,376	—	303	—	341	36,525	50,976	738,334
Total deferred outflow of resources	\$ 11,612	\$ 104,691	\$ 81,509	\$ —	\$ 324,001	\$ 128,376	\$ —	\$ 303	\$ —	\$ 341	\$ 36,525	\$ 50,976	\$ 738,334
Liabilities and Net Position													
Current liabilities:													
Accounts payable	—	164,653	55,710	—	17,462	336	—	—	1,985	2,244	29,169	5,349	276,928
Current portion of compensated absences	—	24,368	29,882	46,675	73,366	—	—	—	—	—	—	—	174,291
Accrued liabilities	25,722	74,345	53,750	—	189,877	4,891	—	—	—	28,342	63,998	7,589	448,514
Total current liabilities	25,722	263,366	139,342	46,675	280,705	5,227	—	—	1,985	30,586	93,167	12,938	899,733
Noncurrent liabilities:													
Net pension liability	57,289	516,498	402,131	—	1,598,484	633,353	—	1,496	—	1,681	180,197	251,494	3,642,623
Total noncurrent liabilities	57,289	516,498	402,131	—	1,598,484	633,353	—	1,496	—	1,681	180,197	251,494	3,642,623
Total liabilities	83,011	779,864	541,493	46,675	1,879,189	638,580	—	1,496	1,985	32,267	273,364	264,432	4,542,356
Net position:													
Net investment in capital assets	7,441,138	—	—	—	5,832,151	37,620	—	97,272	61,879	—	—	48,366	13,518,426
Unrestricted	23,168,916	16,980,866	278,706	(2,120,354)	15,767,631	1,214,950	123,685	144,872	474,544	69,737	556,726	824,682	57,484,961
Total net position	30,610,054	16,980,866	278,706	(2,120,354)	21,599,782	1,252,570	123,685	242,144	536,423	69,737	556,726	873,048	71,003,387
Total liabilities and net position	\$ 30,691,065	\$ 17,760,730	\$ 820,199	\$ (2,073,679)	\$ 23,478,971	\$ 1,891,150	\$ 123,685	\$ 243,640	\$ 538,408	\$ 102,004	\$ 830,090	\$ 1,137,480	\$ 75,545,743

See accompanying independent auditors' report.

THE NAVAJO NATION
Combining Statement of Revenues, Expenses, and Changes in Net Position
Enterprise Funds
Modified Accrual Budget Basis
Year ended September 30, 2015

	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 Ranch Fund	Total
Operating revenues:													
Rental income	255,400	—	897,250	—	31,731	—	—	—	—	—	28,230	—	1,212,611
Interest income	76,633	912,248	—	—	—	—	—	—	—	—	—	—	988,881
Charges for services	3,500	201,628	—	145,373	10,656,183	879,531	2,761	—	—	—	918,318	1,123,518	13,930,812
Other income	298,172	(173,416)	1,969	—	285	—	—	10,821	147,190	154,416	2,500	23,115	465,052
Total operating revenues	613,705	940,460	899,219	145,373	10,688,199	879,531	2,761	10,821	147,190	154,416	949,048	1,146,633	16,597,356
Operating expenses:													
Personnel	67,617	609,514	474,528	—	1,886,664	747,536	—	1,766	—	1,984	212,684	296,834	4,299,327
Travel, per diem, and vehicle	45,712	45,712	45,712	—	313,345	284,439	—	1,884	6,240	1,884	28,002	41,840	771,193
Supplies	45,712	75,418	68,204	25	313,345	151,139	—	989	10,233	20,584	48,058	29,781	703,488
Contractual service	3,596	—	13,000	—	39,961	235,411	—	—	—	—	—	—	293,378
Lease, telephone, and utilities	12,260	8,693	43,964	—	131,807	15,356	—	820	—	3,766	46,180	128,867	393,713
Repairs and maintenance	1,041,270	21,044	222,780	—	147,582	4,716	—	—	5,537	1,000	30,681	—	1,474,610
Provision (recovery) for bad debts	(608,499)	(230,806)	—	—	—	—	—	—	—	—	—	503,571	(335,608)
Depreciation expense	313,562	—	—	126	86,715	964	—	—	—	—	—	5,760	406,037
Reinsurance premiums	—	827	589	—	3,215	42,031	—	48	—	—	—	406	6,049
Other expense	3,312,856	37,702	9,805	—	449,276	—	—	8,745	—	318,375	905,896	11,825	5,096,511
Total operating expenses	4,194,724	565,242	880,692	151	3,368,101	1,485,638	—	12,732	22,030	347,603	1,271,501	1,018,884	13,167,388
Operating income (loss), net	(3,561,019)	375,218	18,527	145,222	7,320,098	(606,107)	2,761	(1,911)	125,170	(193,187)	(322,453)	127,749	3,430,068
Nonoperating revenues:													
Interest and dividends	5,987	3,803	—	—	84,308	—	—	—	—	—	—	—	94,098
Statutory allocation	4,396,310	—	—	—	—	—	—	—	—	—	—	—	4,396,310
Total nonoperating revenues	4,402,297	3,803	—	—	84,308	—	—	—	—	—	—	—	4,490,408
Nonoperating income, net	841,278	379,021	18,527	145,222	7,404,406	(606,107)	2,761	(1,911)	125,170	(193,187)	(322,453)	127,749	7,920,476
Excess (deficiency) of revenues over expenses	—	—	—	—	(1,346,341)	818,765	—	2,094	—	325,870	1,020,471	—	820,859
Transfers	841,278	379,021	18,527	145,222	6,038,065	212,658	2,761	183	125,170	132,683	698,018	127,749	8,741,335
Change in net position	29,768,776	16,601,845	260,179	(2,865,576)	15,541,717	1,039,912	120,924	241,961	411,253	(62,946)	(141,292)	745,299	62,262,055
Net position, beginning of year, as restated	—	—	—	—	—	—	—	—	—	—	—	—	—
Net position, end of year	\$ 30,610,054	\$ 16,980,866	\$ 278,706	\$ (2,120,354)	\$ 21,599,782	\$ 1,252,570	\$ 123,685	\$ 242,144	\$ 536,423	\$ 69,737	\$ 556,726	\$ 873,048	\$ 71,003,187

See accompanying independent auditors' report.

THE NAVAJO NATION
Combining Statement of Cash Flows
Enterprise Funds
Modified Accrual Budget Basis
Year ended September 30, 2015

	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 Ranch Fund	Total
Cash flows from operating activities:													
Receipts from customers	258,900	201,628	897,250	145,373	10,687,914	879,331	2,761	—	—	—	946,548	1,123,518	15,143,423
Interest on loans	76,633	912,248	—	—	—	—	—	—	—	—	—	—	988,881
Payments to employees for services	(70,599)	(626,323)	(495,375)	—	(2,003,029)	(790,703)	—	(1,844)	—	(2,072)	(242,921)	(332,008)	(4,564,876)
Payments to suppliers	(45,112)	(75,418)	(68,204)	(25)	(313,345)	(151,339)	—	(989)	(10,233)	(20,584)	(48,058)	(20,781)	(703,488)
Payments to third parties for services	(1,065,167)	(1,327,239)	(6,087,984)	(24,896)	(357,089)	(42,031)	—	(1,845)	(145,473)	(163,959)	(293,396)	(536,036)	(2,844,565)
Other receipts (payments)	(2,069,012)	—	36,727	—	(537,089)	(42,031)	—	2,076	—	(163,959)	(293,396)	(536,036)	(2,582,944)
Net cash (used in) provided by operating activities	(2,914,957)	1,679,826	43,622	120,452	7,379,550	(638,704)	2,761	(1,989)	125,065	(190,495)	(270,779)	51,408	5,366,160
Cash flows from capital and related financing activity:													
Acquisition of capital assets	(600,000)	—	—	—	(23,555)	—	—	—	(31,860)	—	—	—	(655,415)
Net cash (used in) provided by capital and related financing activity	(600,000)	—	—	—	(23,555)	—	—	—	(31,860)	—	—	—	(655,415)
Cash flows from noncapital and related financing activities:													
Transfers	—	—	—	—	(1,346,341)	818,765	—	2,084	—	325,870	1,020,471	—	820,859
Statutory allocations	4,396,310	—	—	—	—	—	—	—	—	—	—	—	4,396,310
Net cash provided by (used in) capital and related financing activities	4,396,310	—	—	—	(1,346,341)	818,765	—	2,084	—	325,870	1,020,471	—	5,217,169
Cash flows from investing activities:													
Purchases of investments	(17,397,463)	(5,598,135)	—	—	—	—	—	—	—	—	—	—	(22,995,598)
Sales of investments	20,346,865	4,318,323	—	—	—	—	—	—	—	—	—	—	24,665,188
Interest on investment and cash balances	4,881	3,323	—	—	84,308	—	—	—	—	2,244	—	—	84,356
Net cash provided by (used in) investing activities	2,954,283	(1,276,552)	—	—	84,308	—	—	—	—	2,244	—	—	1,964,359
Net increase in cash and cash equivalents	3,835,717	603,269	43,622	120,452	6,095,962	160,061	2,761	105	93,205	137,619	750,092	51,408	11,892,273
Cash and cash equivalents, beginning of year	10,631,945	6,087,984	695,068	(2,218,901)	11,228,857	1,565,093	120,924	145,960	375,838	(35,956)	18,473	942,973	29,558,558
Cash and cash equivalents, end of year	14,467,662	6,691,253	738,690	(2,098,449)	17,322,819	1,725,154	123,685	146,065	469,043	101,663	768,565	994,381	41,450,831
Reconciliation of operating income (loss) to net cash from operating activities:													
Operating income (loss)	(3,561,019)	375,218	18,527	145,222	7,320,098	(606,107)	2,761	(1,911)	125,170	(193,187)	(322,453)	127,749	3,430,668
Adjustment to reconcile operating income to net cash (used in) provided by operating activities:													
Depreciation expense	313,562	—	—	—	86,715	—	—	—	—	—	—	5,760	406,037
Provision for bad debts	(608,499)	(230,806)	—	126	—	—	—	—	—	—	—	503,571	(335,608)
(Increase) decrease in accounts receivable	—	—	8,000	(24,896)	—	—	—	—	(1,715)	—	—	(347,328)	(565,599)
(Increase) decrease in notes receivable	985,784	1,545,316	—	—	—	—	—	—	—	—	—	—	2,531,100
(Increase) decrease in prepaid expenses	(11,121)	(104,691)	(81,509)	—	(324,001)	(128,776)	—	(303)	—	(341)	(36,525)	(50,876)	(485,116)
(Increase) decrease in other noncurrent assets	(1,112)	—	—	—	(31,157)	(10,198)	—	—	—	—	(20,857)	(22,882)	(34,937)
(Decrease) increase in accounts payable	(11,733)	6,175	37,842	—	89,102	(9,490)	—	—	1,610	2,780	82,311	(3,170)	196,047
Increase in net pension liability	8,650	77,804	60,576	—	240,793	95,007	—	225	—	233	27,145	37,884	548,317
Total adjustments	646,662	1,304,608	25,095	(24,770)	59,452	(52,597)	—	(78)	(105)	2,692	52,074	(76,341)	1,936,092
Net cash (used in) provided by operating activities	(2,914,957)	1,679,826	43,622	120,452	7,379,550	(638,704)	2,761	(1,989)	125,065	(190,495)	(270,779)	51,408	5,366,160

See accompanying independent auditors' report.

THE NAVAJO NATION
Combining Statement of Net Position
Internal Service Funds
Modified Accrual Budget Basis
September 30, 2015

Assets	Liabilities and Net Position						
	Fleet Management	Duplicating Services	Office Supply Center	Air Transportation	Group Health Self-Insurance Fund	Property and Casualty Self-Insurance Fund	Workers' Compensation Insurance Fund
Current assets:							
Cash and cash equivalents	\$ 24,762,551	1,261,031	737,237	(3,531,604)	2,088,792	(342,245)	587,120
Investments	—	—	—	—	—	24,785,706	13,617,653
Receivables:							
Accrued interest receivable, net	28,633	—	8,259	—	—	4,662	59,607
Accounts receivable	—	—	274,685	—	1,171,219	4,457	17,608
Total receivables	28,633	—	282,944	—	1,171,219	9,119	77,215
Other assets	—	—	—	—	—	—	—
Total current assets	24,791,184	1,261,031	1,020,181	(3,531,604)	3,260,011	24,452,580	14,281,988
Noncurrent assets:							
Capital assets:							
Buildings	51,828	—	—	—	—	—	—
Vehicles	35,972,469	—	—	—	—	—	—
Equipment	900,237	439,723	3,351	5,375,543	—	226,528	86,462
Total capital assets	36,924,534	439,723	3,351	5,375,543	—	226,528	86,462
Accumulated depreciation	33,988,822	408,250	3,231	3,570,398	—	71,386	41,600
Capital assets, net	2,935,712	31,473	120	1,805,145	—	155,142	44,862
Total noncurrent assets	2,935,712	31,473	120	1,805,145	—	155,142	44,862
Total assets	\$ 27,726,896	1,292,504	1,020,301	(1,726,459)	3,260,011	24,607,722	14,326,850
Deferred Outflow of Resources							
Pension-related outflows	\$ 547,092	36,976	23,790	10,666	85,673	123,463	57,675
Total deferred outflow of resources	\$ 547,092	36,976	23,790	10,666	85,673	123,463	57,675
Liabilities and Net Position							
Current liabilities:							
Accounts payable	\$ 136,749	5,117	—	—	205,566	49,302	15,188
Current portion of compensated absences	184,164	9,483	5,818	—	14,422	33,206	16,099
Current estimated claims payable	—	—	—	—	6,380,000	1,723,714	422,942
Accrued liabilities	272,378	—	—	—	853,854	157,600	16,116
Total current liabilities	593,291	14,600	5,818	—	7,453,842	1,963,822	470,345
Noncurrent liabilities:							
Estimated claims payable	—	—	—	—	—	—	—
Net pension liability	2,699,120	182,424	117,372	52,624	422,675	609,117	284,545
Total noncurrent liabilities	2,699,120	182,424	117,372	52,624	422,675	609,117	284,545
Total liabilities	3,292,411	197,024	123,190	52,624	7,876,517	2,572,939	754,890
Net position:							
Net investment in capital assets	2,935,712	31,473	120	1,805,145	—	155,142	44,862
Restricted, expendable for claims and judgments	—	—	—	—	—	22,003,104	13,584,773
Unrestricted	22,045,865	1,100,983	920,781	(3,573,562)	(4,530,833)	—	—
Total net position	24,981,577	1,132,456	920,901	(1,768,417)	(4,530,833)	22,158,246	13,629,635
Total liabilities and net position	\$ 28,273,988	1,329,480	1,044,091	(1,715,793)	3,345,684	24,731,185	14,384,525

See accompanying independent auditors' report.

THE NAVAJO NATION
Combining Statement of Revenues, Expenses, and Changes in Net Position
Internal Service Funds
Modified Accrual Budget Basis
Year ended September 30, 2015

	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	\$ —	—	—	—	36,130,940	8,328,590	158,692	—	44,618,222
Charges for services	13,420,924	424,639	565,792	454,818	—	—	—	—	14,866,173
Other income	400,736	—	—	—	—	699	4,376	—	405,811
Total operating revenues	13,821,660	424,639	565,792	454,818	36,130,940	8,329,289	163,068	—	59,890,206
Operating expenditures:									
Personnel	3,185,726	215,311	138,533	62,111	498,876	718,931	335,844	—	5,155,332
Travel, per diem, and vehicle	208,835	11,052	11,058	—	48,852	110,741	63,906	—	454,444
Supplies	5,245,374	53,952	418,446	226,028	27,898	69,797	32,305	—	6,073,800
Contractual service	—	—	—	—	27,461	630,860	55,636	—	713,957
Lease, telephone, and utilities	14,324	260,272	3,904	—	13,642	108,263	29,815	—	430,220
Repairs and maintenance	246,057	196,061	215	142,559	211	11,202	16,506	—	612,811
Depreciation expense	2,906,760	33,181	1,649	95,333	—	30,268	8,972	—	3,076,163
Benefits and claims	—	—	—	—	28,107,447	951,923	1,018,074	2,566,649	32,644,093
Reinsurance premiums	4,192	243	197	—	3,813,340	612,834	358	—	4,431,164
Other expense	260,256	4,001	5,556	38,794	3,847,872	722,120	26,550	—	4,905,149
Total operating expenditures	12,071,524	774,073	579,558	564,825	36,385,599	3,966,939	1,587,966	2,566,649	58,497,133
Net operating income (loss)	1,750,136	(349,434)	(13,766)	(110,007)	(254,659)	4,362,350	(1,424,898)	(2,566,649)	1,393,073
Nonoperating revenues:									
Interest and dividends	—	—	—	—	280	16,772	359,980	—	377,032
Net increase in fair value of investments	—	—	—	—	—	—	165,771	—	165,771
Total nonoperating revenues	—	—	—	—	280	16,772	525,751	—	542,803
Net nonoperating income	—	—	—	—	280	16,772	525,751	—	542,803
Excess (deficiency) of revenues over expenditures	1,750,136	(349,434)	(13,766)	(110,007)	(254,379)	4,379,122	(899,147)	(2,566,649)	1,935,876
Transfers	—	—	—	—	—	—	—	2,566,649	2,566,649
Change in net position	1,750,136	(349,434)	(13,766)	(110,007)	(254,379)	4,379,122	(899,147)	—	4,502,525
Net position, beginning of year, as restated	23,231,441	1,481,890	934,667	(1,658,410)	(4,276,454)	17,779,124	14,528,782	2,000,000	54,021,040
Net position, end of year	\$ 24,981,577	1,132,456	920,901	(1,768,417)	(4,530,833)	22,158,246	13,629,635	2,000,000	58,523,565

See accompanying independent auditors' report.

THE NAVAJO NATION
Combining Statement of Cash Flows
Internal Service Funds
Modified Accrual Budget Basis
Year ended September 30, 2015

	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	\$ 13,420,924	424,639	291,107	454,818	—	—	—	—	14,591,488
Cash received for premiums from the government	—	—	—	—	21,928,246	3,438,482	—	—	25,366,728
Cash received from others for premiums	—	—	—	—	14,631,172	4,885,652	—	—	19,675,516
Payments to employees for services	(3,326,228)	(224,807)	(144,645)	(64,850)	(520,878)	(750,638)	158,692	—	(5,382,702)
Payment of claims	—	—	—	—	(28,327,447)	(3,552,456)	(2,308,622)	(649,618)	(34,838,143)
Payments to suppliers	(5,245,374)	(53,952)	(136,321)	(226,028)	(27,898)	(69,797)	(32,305)	—	(5,791,675)
Payments(refunds) to/from third parties for services	(759,210)	(469,174)	(20,930)	(185,409)	(8,657,620)	(2,188,903)	(166,588)	—	(12,447,834)
Other receipts (payments)	481,306	—	(32,470)	(2,399)	783,245	134,266	(22,681)	—	1,341,267
Net cash provided by (used in) operating activities	4,571,418	(323,294)	(43,259)	(23,868)	(191,180)	1,896,606	(2,722,160)	(649,618)	2,514,645
Cash flows from capital and related financing activities:									
Acquisition of capital assets	(9,588)	—	—	—	—	—	—	—	(9,588)
Sale of capital assets	25,524	—	—	—	—	—	—	—	25,524
Net cash provided by (used in) capital and related financing activities	15,936	—	—	—	—	—	—	—	15,936
Cash flows from investing activities:									
Purchases of investments	—	—	(8,259)	—	—	(55,123,902)	(734,066)	—	(55,866,227)
Sale of investments	—	—	—	—	—	52,842,720	4,231,826	—	57,074,546
Interest on investment and cash balances	(28,633)	—	—	—	280	12,375	366,662	—	350,684
Net cash used in (provided by) investing activities	(28,633)	—	(8,259)	—	280	(2,268,807)	3,864,422	—	1,559,003
Net increase (decrease) in cash and cash equivalents	4,558,721	(323,294)	(51,518)	(23,868)	(190,900)	(372,201)	1,142,262	(649,618)	4,089,584
Cash and cash equivalents, beginning of year	20,203,830	1,584,325	788,755	(3,507,736)	2,279,692	29,956	(555,142)	8,167,826	28,991,506
Cash and cash equivalents, end of year	\$ 24,762,551	1,261,031	737,237	(3,531,604)	2,088,792	(342,245)	587,120	7,518,208	33,081,090
Reconciliation of operating income (loss) to net cash from operating activities:									
Operating income (loss)	\$ 1,750,136	(349,434)	(13,766)	(110,007)	(254,659)	4,362,350	(1,424,898)	(2,566,649)	1,393,073
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:									
Depreciation expense	2,906,760	33,181	1,649	95,333	—	30,268	8,972	—	3,076,163
Transfers	—	—	—	—	—	—	—	2,566,649	2,566,649
Decrease (increase) in accounts receivable	30,952	—	(274,685)	—	—	(4,456)	—	—	(248,189)
Decrease in other assets	—	—	282,125	—	—	—	—	—	282,125
(Increase) in deferred outflows	(547,092)	(36,976)	(23,790)	(10,666)	428,478	(123,463)	(57,675)	—	(885,335)
Increase (decrease) in accounts payable	24,072	2,455	(32,470)	(6,455)	(85,673)	140,683	(874)	—	4,414
(Decrease) in estimated claims payable	—	—	(3)	—	(220,000)	(2,600,533)	(1,290,548)	(649,618)	(4,760,702)
Increase in net pension liability	406,590	27,480	17,681	7,927	63,671	91,757	42,863	—	657,969
Total adjustments	2,821,282	26,140	(29,493)	86,139	63,479	(2,465,744)	(1,297,262)	1,917,031	1,121,572
Net cash provided by (used in) operating activities	\$ 4,571,418	(323,294)	(43,259)	(23,868)	(191,180)	1,896,606	(2,722,160)	(649,618)	2,514,645

See accompanying independent auditors' report.

THE NAVAJO NATION
Combining Statement of Fiduciary Net Position

Fiduciary Funds
Modified Accrual Budget Basis
September 30, 2015

	Pension Trust Funds						Private-Purpose Trust Funds							Total Private-Purpose Trust Funds
	Refirement Fund	Deferred Retirement Fund	Nihiloteso Añel (B) Fund	Total Pension Trust Funds	Handicapped Services	Senior Citizen Service	Vocational Education	Navajo Academy Fund	Navajo Purpose Fund	Sales Tax Trust Fund	Local Government Fund	Veterans Trust Fund	Navajo Benefit Freeze Trust Fund	
Cash and cash equivalents:														
In trust for the Navajo Nation	\$ 87,884	25,169	(4,312)	108,881	3,918	478,994	492,657	31,980	(477,004)	(2,178,221)	103,522	15,592,665	4,727,800	18,775,511
The Navajo Nation Managers selected by the Navajo Nation Bureau of Indian Affairs, as trustee for the Navajo Nation	23,031,093	64,771	—	23,095,864	491,710	—	—	—	—	—	—	23,587,274	—	23,587,274
Total cash and cash equivalents	23,118,977	89,940	(4,312)	23,204,705	495,628	478,994	492,657	31,980	302,471	(2,178,221)	103,522	15,592,665	4,727,800	382,471
Investments:														
Managed by:														
The Navajo Nation	—	—	—	—	—	—	9,254,619	388,922	—	11,757,572	13,159,606	—	—	34,560,719
Managed by the Navajo Nation	634,313,477	2,120,405	84,807,426	721,241,309	10,235,657	9,208,700	9,254,619	388,922	—	—	—	96,568,829	499,636	837,754,131
Total investments	634,313,477	2,120,406	84,807,426	721,241,309	10,235,657	9,208,700	9,254,619	388,922	—	11,757,572	13,159,606	96,568,829	499,636	872,314,850
Receivables:														
Accounts receivable	4,501	—	479,673	479,673	1,263,277	1,084,172	1,262,176	—	36,988	—	—	5,388,164	—	9,034,777
Participant loans receivable	1,562,108	3,069	7,710,967	7,715,468	—	—	—	—	—	3,182	34,940	396,540	72	7,715,468
Accrued interest receivable	659,002,063	2,213,415	92,993,854	754,209,332	12,021,098	10,816,275	11,055,852	420,936	(58,345)	9,582,533	13,298,068	117,846,198	5,227,508	2,120,290
Total assets	—	—	—	—	—	—	—	—	—	—	—	117,846,198	5,227,508	180,310,123
Deferred Outflow of Resources														
Pension related outflows	—	—	—	—	5,400	—	—	—	—	—	—	240,794	—	246,194
Total deferred outflow of resources	—	—	—	—	5,400	—	—	—	—	—	—	240,794	—	246,194
Liabilities and Net Position														
Accounts payable	—	—	—	—	22,094	38,969	8,648	—	—	140,763	—	70,069	—	139,780
Accrued liabilities	—	—	—	—	—	—	—	—	—	—	—	194,767	—	194,767
Net pension liability	—	—	—	—	28,640	—	—	—	—	—	—	1,187,737	—	1,216,613
Total liabilities	—	—	—	—	55,583	38,969	8,648	—	—	140,763	—	1,302,397	—	1,549,160
Net position held in trust for pension benefits and other purposes	\$ 659,002,063	2,213,415	92,993,854	754,209,332	11,971,115	10,777,306	11,047,204	420,936	(58,345)	9,441,770	13,298,068	116,881,599	5,227,508	933,216,489

See accompanying independent auditors' report

THE NAVAJO NATION
Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Modified Accrual Budget Basis
September 30, 2015

	Pension Trust Funds				Private-Purpose Trust Funds										Total Private- Purpose Trust Funds	Total Fiduciary Funds
	Retirement Fund	Deferred Retirement Fund	Navajo 401 (k) Fund	Total Pension Trust Funds	Handicapped Services	Senior Citizen Services	Vocational Education	Navajo Academy Fund	Navajo Trust Fund	Sales Tax Trust Fund	Local Government Fund	Veterans Trust Fund	Navajo Private Trust Fund			
Additions																
Interest and dividends	\$ 14,428,625	93,699	915,444	15,437,768	342,916	310,006	324,114	238	84	13,179	9,412	2,925,214	12,771	3,937,954		
Net (decrease) in fair value of investments	(18,306,747)	(13,809)	(2,220,275)	(20,540,831)	(58,102)	(51,996)	(40,044)	—	—	(7,630)	—	(1,315,963)	—	(1,473,735)		
Contributions to plans	49,860,581	524,542	8,313,451	58,698,574	—	—	—	—	—	10,099,966	—	—	—	10,099,966		
Tax revenue	—	—	—	—	—	—	—	—	—	—	—	153,196	500,000	653,196		
Net revenue	118,255	—	223,644	341,899	—	—	—	—	—	—	—	—	—	—		
Statutory allocation to permanent fund	—	—	—	—	—	—	—	—	—	(1,211,996)	—	—	—	(1,211,996)		
Statutory allocation of current year revenues	—	—	—	—	—	—	—	—	—	(3,918,785)	—	11,010,010	—	7,091,225		
Total additions	46,100,714	604,432	7,232,864	53,937,810	284,814	258,010	284,070	238	84	4,974,734	9,412	12,772,457	512,771	19,096,610		
Deductions																
Personnel	556,273	—	—	556,273	32,831	—	—	—	—	—	—	1,463,987	—	1,496,818		
Travel	35,518	—	—	35,518	8,371	—	—	—	—	—	—	233,200	—	241,571		
Supplies	35,477	—	—	35,477	—	—	—	—	—	—	—	17,977	—	17,977		
Chapter disbursements	—	—	—	—	—	—	—	—	—	4,761,962	1,440,000	—	—	6,201,962		
Lease, utilities and telephone	—	—	—	—	67,121	—	—	—	—	—	—	1,527,218	—	1,594,339		
Intrag grants	116,634	—	—	116,634	—	—	—	—	—	—	—	10,570	—	127,204		
Repair and maintenance	3,676	—	—	3,676	—	—	—	—	—	—	—	37,018	—	37,018		
Retirement benefits	31,179,384	2,257,175	6,991,086	40,427,645	—	—	—	—	—	—	—	—	—	—		
Contractual services	3,145,783	—	178,270	3,324,053	26,782	24,899	25,820	—	—	—	—	256,043	—	333,544		
Scholarship payments	—	—	—	—	—	—	—	—	—	—	—	—	—	—		
Other	92,263	—	—	92,263	45,240	339,437	326,446	—	—	—	—	6,677	—	326,446		
Total deductions	35,165,108	2,257,175	7,169,556	44,591,839	180,447	364,336	352,266	—	—	4,761,962	1,440,000	3,552,690	—	10,651,701		
Change in net position	10,935,606	(1,652,743)	62,608	9,345,471	104,367	(106,326)	(68,196)	238	84	212,772	(1,430,588)	9,219,767	512,771	8,444,909		
Net position, beginning of year, as restated	648,066,457	3,866,158	92,931,246	744,863,861	11,866,748	10,883,632	11,115,400	420,678	(58,429)	9,228,998	14,738,556	107,661,828	4,714,732	179,562,248		
Net position, end of year	\$ 659,002,063	2,213,415	92,993,854	754,209,332	11,971,115	10,777,306	11,047,204	420,916	(58,345)	9,441,770	13,298,068	116,881,593	5,227,508	179,007,157		
														933,216,489		

See accompanying independent auditor's report