

RESOLUTION OF THE  
NAVAJO NATION COUNCIL

23<sup>RD</sup> NAVAJO NATION COUNCIL -- Third Year, 2017

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 2016

**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 2016 annual audit for the Navajo Nation. The annual audit is attached at **Exhibit A**.
- B. The Navajo Nation finds it in the best interest of the Navajo Nation to accept the 2016 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 2016, 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 21 in favor and 00 opposed, this 20<sup>TH</sup> day of July 2017.



Lorenzo O. Bates, Speaker  
Navajo Nation Council

7-28-17

Date

Motion: Honorable Nathaniel Brown  
Second: Honorable Steven Begay  
Speaker Bates not voting

**NAVAJO NATION**

RCS# 819

NNC Summer Session

7/20/2017

05:06:07 PM

Amd# to Amd#

Legislation No. 0232-17

**PASSED**

MOT Brown

Accepting the Audit Report of

SEC Begay, S

KPMG LLP on the Primary Govt.

Fin. Statement of NN FY 2016

**Yea : 21**

**Nay : 0**

**Not Voting : 3**

**Yea : 21**

Begay, K

Chee

Jack

Smith

Begay, NM

Crotty

Perry

Tso

Begay, S

Damon

Pete

Tsosie

BeGaye, N

Daniels

Phelps

Witherspoon

Bennett

Hale

Slim

Yazzie

Brown

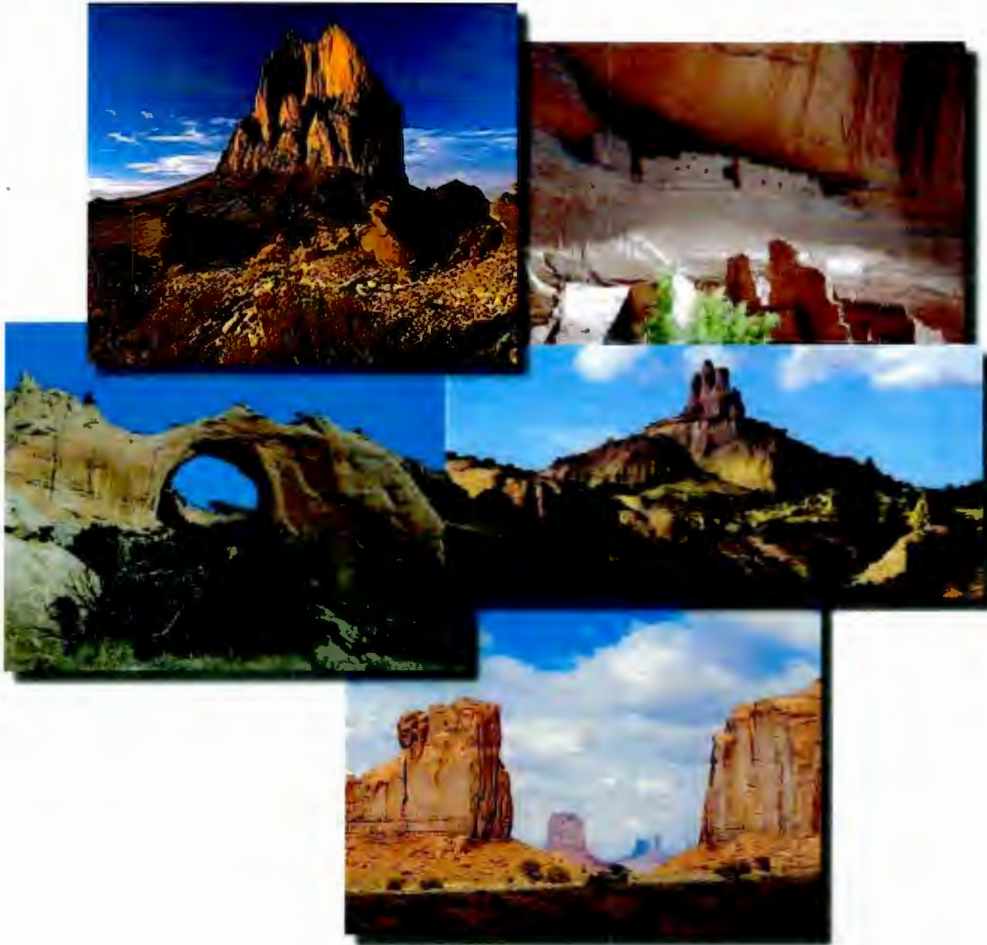
**Nay : 0**

**Not Voting : 3**

Shepherd

Filfred

Bates



# Navajo Nation



Basic Financial Statements - September 30, 2016

## THE NAVAJO NATION

### Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	4
<b>Basic Financial Statements – Modified Accrual Budget Basis</b>	
Government-Wide Financial Statements:	
Statement of Net Position – Exhibit A	15
Statement of Activities – Exhibit B	16
Fund Financial Statements:	
Balance Sheet – Governmental Funds – Exhibit C	17
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds – Exhibit D	18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities – Exhibit E	19
Statement of Net Position – Proprietary Funds – Exhibit F	20
Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds – Exhibit G	21
Statement of Cash Flows – Proprietary Funds – Exhibit H	22
Statement of Fiduciary Net Position – Fiduciary Funds – Exhibit I	23
Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Exhibit J	24
Notes to Basic Financial Statements	25
<b>Required Supplementary Information (Unaudited)</b>	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget to Actual – General Fund – Schedule 1	69
Pension Other Information:	
Schedule of Changes in the Net Pension Liability and Related Ratios – Schedule 2	70

## THE NAVAJO NATION

### Table of Contents

	Page
Schedule of the Navajo Nation's Contributions – Schedule 3	71
Schedule of Investment Returns – Schedule 4	72
<b>Supplemental Schedules – Modified Accrual Budget Basis</b>	
Combining Balance Sheet – General Fund – Schedule 5	73
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund – Schedule 6	74
Combining Balance Sheet – Nonmajor Governmental Funds – Schedule 7	75
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – Schedule 8	76
Combining Statement of Net Position – Enterprise Funds – Schedule 9	77
Combining Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Funds – Schedule 10	78
Combining Statement of Cash Flows – Enterprise Funds – Schedule 11	79
Combining Statement of Net Position – Internal Service Funds – Schedule 12	80
Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds – Schedule 13	81
Combining Statement of Cash Flows – Internal Service Funds – Schedule 14	82
Combining Statement of Fiduciary Net Position – Fiduciary Funds – Schedule 15	83
Combining Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Schedule 16	84





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

## **Independent Auditors' Report**

The Navajo Nation Council  
The Navajo Nation:

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Navajo Nation (the Nation), as of and for the year ended September 30, 2016, 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 of accounting described in note 1; 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*

<b>Opinion unit</b>	<b>Type of opinion</b>
Governmental activities	Unmodified
Business-type activities	Unmodified
Aggregate discretely presented component units	Adverse
General fund	Unmodified
Grant fund	Unmodified
Permanent fund	Unmodified
Aggregate remaining fund information	Unmodified

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

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

### *Adverse Opinion*

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly, the financial position of the aggregate discretely presented component units of the Nation, as of September 30, 2016, 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, 2016, 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*

We draw attention to note 1 of the basic financial statements, which describes the basis of accounting. The basic financial statements are prepared on the modified accrual budget basis of accounting, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

### *Emphasis of Matter*

#### **Adoption of New Accounting Pronouncement**

As discussed in note 1(m) to the financial statements, for the year ended September 30, 2016, the Nation adopted Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*. Our opinions are not modified with respect to this matter.





#### *Other Matters*

#### **Required Supplementary Information**

U.S. generally accepted accounting principles require that the management's discussion and analysis, schedule of revenues, expenditures, and changes in fund balance – budget to actual – general fund (schedule 1), schedule of changes in the net pension liability and related ratios (schedule 2), schedule of the Navajo Nation's contributions (schedule 3) and schedule of investment returns (schedule 4) be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Nation's basic financial statements. The combining and individual nonmajor fund financial statements (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.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 20, 2017 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 20, 2017

**THE NAVAJO NATION**  
Management's Discussion and Analysis (unaudited)  
September 30, 2016

**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, 2016 and 2015. 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 net position of the Nation at the close of the most recent fiscal year is \$3,506,861,907 (net position).
- Expenses of the Nation's governmental activities were \$532,877,956 for the year, which included \$148,776,887 for health and welfare, \$84,170,854 for education and training, \$111,442,829 for general government, and \$63,059,053 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 \$3,113,357,579.
- At September 30, 2016, the unassigned fund balance for the General Fund was \$82,943,544.
- The Nation has a significant amount of investments in the stock and bond market managed by external investment management firms. For fiscal years 2016 and 2015, the Nation's governmental funds experienced a \$173.3 increase and \$(61.1) million decrease in fair value, respectively. In addition, the fiduciary funds experienced a \$70.9 million increase and \$(22.0) million decrease in fair value, respectively.
- The Nation receives a significant portion of operating revenues from oil and gas royalty payments and coal royalty payments, \$70.2 million in fiscal year 2016 and \$94.5 million in fiscal year 2015.

*Overview of the Financial Statements*

The Nation's basic financial statements have three components: government-wide financial statements, fund financial statements, and notes to the financial statements. This report also contains supplementary information presented just after the financial statement section.

## THE NAVAJO NATION

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

September 30, 2016

#### **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.



**THE NAVAJO NATION**  
Management's Discussion and Analysis (unaudited)  
September 30, 2016

The Nation maintains 19 governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general, grant, and permanent fund, all of which are considered to be major funds. The General Fund includes information from eight separate funds, which have been combined in accordance with the requirements of GASB Statement 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Data from the other 16 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, 2016

#### 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 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 \$3,506,861,907 at September 30, 2016 as compared to \$3,201,555,152 at September 30, 2015.

The largest portion of the Nation's assets is cash and investments, which are managed by the Nation and managers selected by the Nation. 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 recently approved an expenditure plan for use of 95% of the permanent fund income (interest and dividends).

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 fund's nonexpendable fund balance of \$1,977,919,083 and \$1,793,803,858 represents 97% of all nonexpendable net position as of September 30, 2016 and 2015.

	The Nation's net position					
	Governmental activities			Business-type activities		
	2016	2015	Change	2016	2015	Change
	(In thousands)					
Current and other assets	\$ 3,516,501	3,237,184	279,317	69,717	61,289	8,428
Capital assets	490,759	458,568	32,191	18,294	13,518	4,776
Total assets	<u>\$ 4,007,260</u>	<u>3,695,752</u>	<u>311,508</u>	<u>88,011</u>	<u>74,807</u>	<u>13,204</u>
Deferred outflow of resources, pensions	\$ 33,027	44,250	(11,223)	645	738	(93)
Long-term liabilities	\$ 261,656	308,279	(46,623)	3,642	3,817	(175)
Other liabilities	334,634	301,171	33,463	1,737	725	1,012
Total liabilities	<u>\$ 596,290</u>	<u>609,450</u>	<u>(13,160)</u>	<u>5,379</u>	<u>4,542</u>	<u>837</u>

**THE NAVAJO NATION**  
**Management's Discussion and Analysis (unaudited)**  
**September 30, 2016**

<b>The Nation's net position</b>						
	<b>Governmental activities</b>			<b>Business-type activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Change</b>	<b>2016</b>	<b>2015</b>	<b>Change</b>
(In thousands)						
Deferred inflow of resources, pensions	\$ 20,022	—	20,022	391	—	391
Net position:						
Net investment in capital assets	\$ 431,837	405,647	26,190	18,294	13,518	4,776
Restricted	2,218,091	2,022,383	195,708	—	—	—
Unrestricted	774,047	702,522	71,525	64,592	57,485	7,107
Total net position	\$ <u>3,423,975</u>	<u>3,130,552</u>	<u>293,423</u>	<u>82,886</u>	<u>71,003</u>	<u>11,883</u>

**Analysis of the Nation's Operations**

The following table provides a summary of the Nation's operations for the years ended September 30, 2016 and 2015. Governmental activities increased the Nation's net position by \$293,423,641 in 2016 compared to an increase of \$72,302,910 in 2015. The 2016 increase is largely due to \$102,376,075 in tax revenue, a \$232,977,566 unrestricted investment income, and the \$73,509,991 in land, buildings, business site, and right-of-way lease revenue. 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.

Royalties from the sales of oil and gas and sale of coal comprise the majority of program revenues – charges for services. During 2016, the oil and gas prices continued to decline resulting in another decrease in revenues. In fiscal year 2016, 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.



**THE NAVAJO NATION**  
Management's Discussion and Analysis (unaudited)  
September 30, 2016

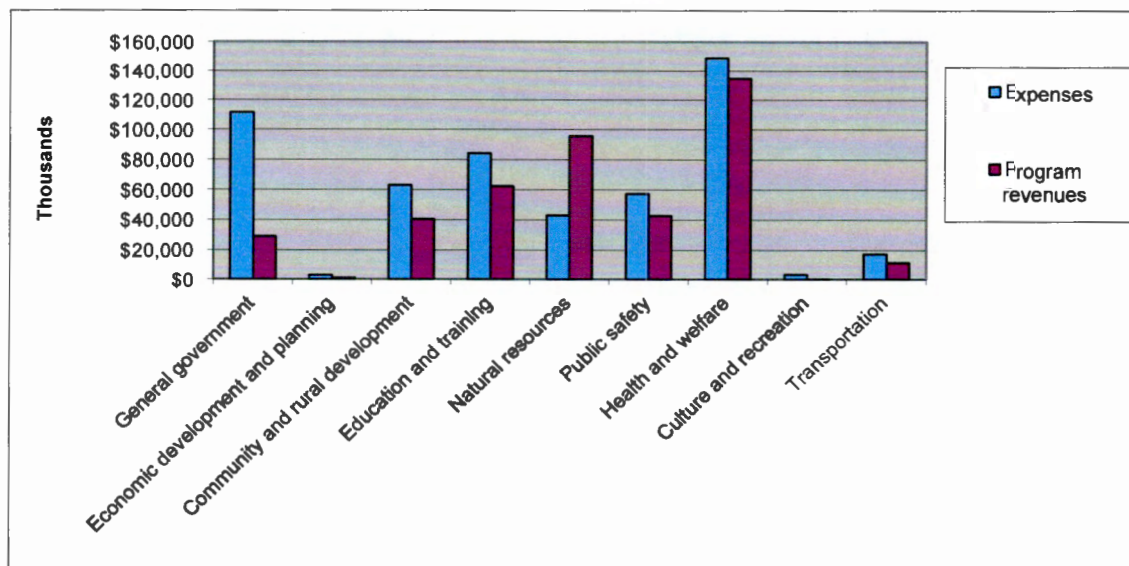
The Nation averaged \$301 million of external funding through grants and contracts for each of the past two years. The largest portion of that funding is for health and welfare activities. The Nation received \$304.0 million of external funding in 2016 compared to \$298.2 million of external funding in 2015, an increase of approximately \$5.8 million.

<b>The Nation's Changes in Net Position</b>						
	<b>Governmental activities</b>			<b>Business-type activities</b>		
	<b>2016</b>	<b>2015</b>	<b>Change</b>	<b>2016</b>	<b>2015</b>	<b>Change</b>
	(In thousands)					
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 114,346	123,474	(9,128)	19,602	16,597	3,005
Operating grants and contributions	292,624	289,974	2,650	—	—	—
Capital grants and contributions	11,348	8,259	3,089	—	—	—
General revenues:						
Taxes:						
Business activity	3,906	6,914	(3,008)	—	—	—
Possessory interest	29,412	34,934	(5,522)	—	—	—
Sales	53,069	44,602	8,467	—	—	—
Other	15,990	18,894	(2,904)	—	—	—
Unrestricted investment income	232,977	(2,036)	235,013	34	94	(60)
Land, buildings, business site, and right-of-way lease	73,510	64,182	9,328	—	—	—
<b>Total revenues</b>	<b>827,182</b>	<b>589,197</b>	<b>237,985</b>	<b>19,636</b>	<b>16,691</b>	<b>2,945</b>
<b>Expenses:</b>						
General government	111,443	108,596	2,847	—	—	—
Economic development and planning	3,011	5,254	(2,243)	—	—	—
Community and rural development	63,059	76,286	(13,227)	—	—	—
Education and training	84,171	88,210	(4,039)	—	—	—
Natural resources	42,957	45,693	(2,736)	—	—	—
Public safety	57,511	71,899	(14,388)	—	—	—
Health and welfare	148,777	148,934	(157)	—	—	—
Culture and recreation	3,248	2,426	822	—	—	—
Transportation	17,339	14,181	3,158	—	—	—
Interest on long-term debt	1,363	2,395	(1,032)	—	—	—
Business Industrial Development Fund	—	—	—	3,701	4,195	(494)
Credit Services	—	—	—	650	565	85
Navajo Nation Housing	—	—	—	899	880	19
Archaeology Services	—	—	—	17	—	17
Parks and Recreation	—	—	—	4,418	3,368	1,050
Fish and Wildlife	—	—	—	1,592	1,485	107
Navajo Nation Code	—	—	—	2	—	2
Navajo Transit	—	—	—	109	13	96
Livestock Custody	—	—	—	109	22	87

**THE NAVAJO NATION**  
Management's Discussion and Analysis (unaudited)  
September 30, 2016

The Nation's Changes in Net Position						
	Governmental activities			Business-type activities		
	2016	2015	Change	2016	2015	Change
(In thousands)						
Fourth of July	\$ —	—	—	339	348	(9)
Annual Navajo Nation Fair	—	—	—	1,466	1,272	194
Tribal ranch	—	—	—	517	1,019	(502)
Total expenses	532,879	563,874	(30,995)	13,819	13,167	652
Increase (decrease) in net assets before transfers and extraordinary item claims settlement	294,303	25,323	268,980	5,817	3,524	2,293
Transfers	(880)	(821)	(59)	880	821	59
Statutory allocations	—	—	—	5,186	4,396	790
Extraordinary item—claims settlement	—	47,801	(47,801)	—	—	—
Change in net position	293,423	72,303	221,120	11,883	8,741	3,142
Net position, beginning of year as restated	3,130,552	3,058,249	72,303	71,003	62,262	8,741
Net position, end of year	\$ 3,423,975	3,130,552	293,423	82,886	71,003	11,883

**2016 Expenses and Program Revenues – Governmental Activities**



## THE NAVAJO NATION

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

September 30, 2016

#### 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.

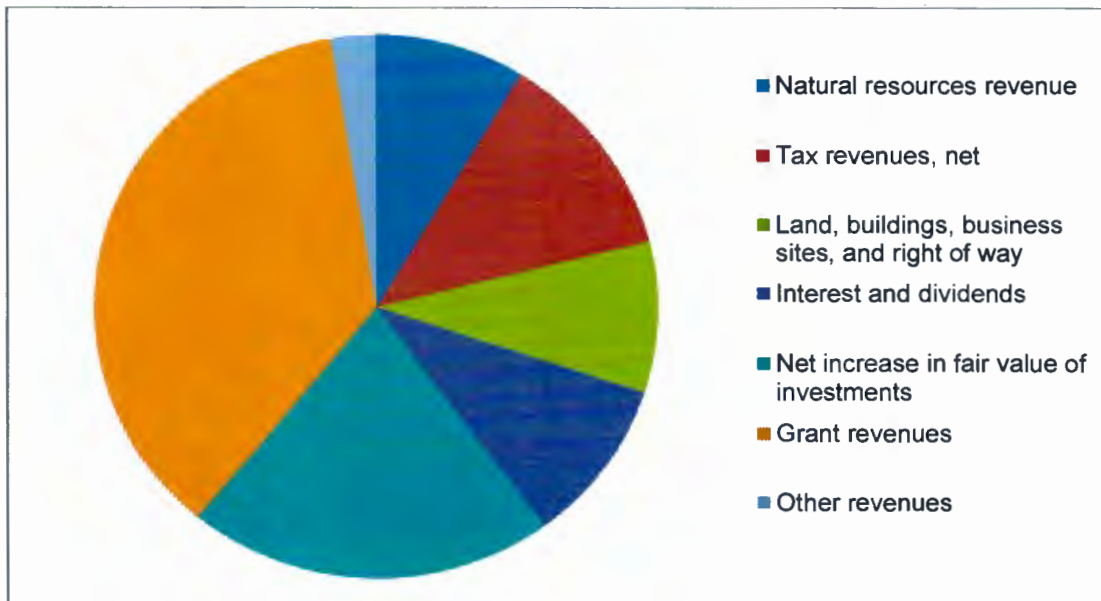
At the end of the current fiscal year, the Nation's governmental funds reported combined ending fund balance of \$3,113,357,579. Approximately, 97% of this total amount is reserved to indicate that it is not available for new spending because it is nonspendable, restricted, committed, and/or assigned.

The General Fund's revenues exceeded expenditures by \$32,850,571 during 2016.

At September 30, 2016, the Grant Fund recorded unearned revenue of \$277,513,734. This amount represents advances on federal grants, primarily through the Bureau of Indian Affairs and Indian Health Services that have not been spent for their intended purpose in accordance with the grant document. These advances are restricted and the Nation expects to fully utilize the funds in accordance with the original award.

The Permanent Fund balance increased \$184,115,225 during the year ended September 30, 2016. The fund has a net increase in fair value of investments of \$129,553,299 and interest and dividends of \$55,114,286. In addition, statutory deposits revenues of \$31,594,393 were added to the fund this year.

#### 2016 Revenue by Source – Governmental Funds



**THE NAVAJO NATION**  
**Management's Discussion and Analysis (unaudited)**  
**September 30, 2016**

*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, 2016, enterprise fund net position increased \$11,883,114 and internal service fund net position increased \$3,553,350.

**General Fund Budgetary Highlights**

- The Nation approved appropriations for fiscal year 2016 expenditures of \$232,999,701. This amount included an initial operating budget of \$202,281,339 and supplemental appropriations approved during the year for various purposes of \$30,718,362.
- Total net revenues of \$178,330,666 exceeded the original projection of \$163,384,000 by \$14,946,666.
- On a budgetary basis, expenditures exceeded revenues by approximately \$12.0 million before transfers.

**Capital Assets**

The Nation's investment in capital assets for its governmental and business-type activities as of September 30, 2016 amounts to \$509,053,375 (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure, and construction in progress.

- The construction in progress of \$47,655,391 increased from the prior year balance of \$33,642,266, which was attributable to the continuation of construction for a judicial building project.

	<b>Governmental activities</b>		<b>Business-type activities</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Land and land development	\$ 90,481	90,481	739	739
Buildings and improvements	412,696	383,506	22,904	20,735
Vehicles	112,387	103,485	—	—
Equipment	82,986	79,414	1,776	1,757
Furniture and fixtures	6,645	6,376	—	—
Construction in progress	44,491	33,642	3,165	—
Accumulated depreciation	(258,927)	(238,337)	(10,290)	(9,713)
<b>Total</b>	<b>\$ 490,759</b>	<b>458,567</b>	<b>18,294</b>	<b>13,518</b>

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

**THE NAVAJO NATION**  
Management's Discussion and Analysis (unaudited)  
September 30, 2016

**Debt Administration**

At September 30, 2016, the Nation had the following debt:

<b>Outstanding Debt at Year-End – Notes Payable, Bond Payable and Bond Premium</b>				
	<b>Governmental activities</b>		<b>Business-type activities</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Notes payable	\$ 6,308	61,372	—	—
Bond payable	50,290	—	—	—
Bond premium	2,324	—	—	—
Total	<u>\$ 58,922</u>	<u>61,372</u>	<u>—</u>	<u>—</u>

Additional information on the Nation's long-term debt can be found in note 7.

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

- The Nation's operating budget is based on estimated revenue projections. Through April 2017, the Nation's actual revenues were at 68.3% of projected fiscal year 2017 revenues.
- Fluctuation in the market of oil and gas prices and coal prices will impact the Nation's overall revenues. For fiscal year 2017, declining oil prices are expected to lead to a decrease in revenues.
- In fiscal year 2016, a five-year expenditure plan was passed to spend the derived income. The first year's (FY 2016) authorized amount for projects is \$30.0 million. \$30.4 million is approved for the second year and \$30.5 million for the third, fourth, and fifth years. Any remaining amount is transferred to the General Fund to help fund operations.
- The Nation has authorized expenditures from the Sihasin Fund for water and waste water projects in the amount of \$180,175,924 over five years. The Water Management Branch and the Navajo Tribal Utility Authority are the responsible entities. The next project funded is in the amount of \$20.0 million to a Community Development Financial Institution for loans to business developers. The Sihasin Fund was also authorized to give the Navajo Nation Gaming Enterprise monies in the form of a grant and loan to build a convenience store by Twin Arrows Casino. Lastly, the Fund was approved to provide \$19.8 million for the United States Department of Agriculture's Pasture, Rangeland, and Forage Pilot Insurance Premium Program for fiscal year 2017 and 2018.
- The Navajo Nation General Fund revenue may be negatively impacted if Peabody Western Coal Company discontinues coal production and sales with the Navajo Generation Station.
- Standard and Poor's has reaffirmed its BBB+ long term rating on the Navajo Nation Series 2015 General Obligation refunding bond. Standard and Poor's also reaffirmed its A issuer credit rating. The outlook is stable for the Nation.'



**THE NAVAJO NATION**  
**Management's Discussion and Analysis (unaudited)**  
**September 30, 2016**

*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: Pearline Kirk, Controller, at:

P.O. Box 3150  
Window Rock, Arizona 86515  
928-871-6308  
[pkirk@nnooc.org](mailto:pkirk@nnooc.org)



**THE NAVAJO NATION**  
Statement of Net Position  
Modified Accrual Budget Basis  
September 30, 2016

Assets	Primary government		
	Governmental activities	Business-type activities	Total
Cash and cash equivalents (note 2)	\$ (29,919,217)	52,154,857	22,235,640
Investments (note 2)	961,731,840	8,816,578	970,548,418
Accounts and notes receivable, net (note 3)	39,139,410	8,739,525	47,878,935
Accrued interest receivable	3,384,734	6,243	3,390,977
Restricted assets:			
Cash and cash equivalents (note 2)	205,155,606	—	205,155,606
Investments (note 2)	2,134,294,132	—	2,134,294,132
Accounts and notes receivable, net (note 3)	196,628,236	—	196,628,236
Accrued interest receivable	4,384,523	—	4,384,523
Prepaid expenses and other assets	1,702,298	—	1,702,298
Capital assets (note 4):			
Land and construction in progress	134,972,210	3,904,025	138,876,235
Buildings and equipment, net of accumulated depreciation	355,787,001	14,390,139	370,177,140
Total capital assets	490,759,211	18,294,164	509,053,375
Total assets	4,007,260,773	88,011,367	4,095,272,140
<b>Deferred Outflow of Resources</b>			
Pension related outflows (note 8)	33,027,133	645,273	33,672,406
Total deferred outflow of resources	33,027,133	645,273	33,672,406
Total assets and deferred outflows	\$ 4,040,287,906	88,656,640	4,128,944,546
<b>Liabilities</b>			
Accounts payable and accrued liabilities (note 6)	\$ 55,065,813	1,738,707	56,802,520
Unearned revenue	279,568,052	—	279,568,052
Long-term liabilities (note 7):			
Due within one year	26,910,060	191,034	27,101,094
Due in more than one year	58,107,197	—	58,107,197
Net pension liability	176,639,372	3,451,215	180,090,587
Total long-term liabilities	261,656,629	3,642,249	265,298,878
Total liabilities	596,290,494	5,378,956	601,669,450
<b>Deferred Inflow of Resources</b>			
Pension related inflows (note 8)	20,022,006	391,183	20,413,189
Total deferred inflow of resources	20,022,006	391,183	20,413,189
<b>Net Position</b>			
Net investment in capital assets	431,837,112	18,294,164	450,131,276
Expendable restricted assets:			
Restricted for community and rural development	77,274,262	—	77,274,262
Restricted for economic development and loans	9,178,918	—	9,178,918
Restricted for education	65,375,913	—	65,375,913
Restricted for claims and refunds	30,171,462	—	30,171,462
Nonexpendable restricted assets:			
Restricted for future government operations	1,977,919,083	—	1,977,919,083
Restricted for chapter activities	58,171,736	—	58,171,736
Unrestricted	774,046,920	64,592,337	838,639,257
Total net position	3,423,975,406	82,886,501	3,506,861,907
Total liabilities, deferred inflows, and net position	\$ 4,040,287,906	88,656,640	4,128,944,546

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
Statement of Activities  
Modified Accrual Budget Basis  
Year ended September 30, 2016

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
<b>Governmental activities:</b>							
General government	\$ 111,442,829	16,892,701	12,147,777	1,250	(82,401,101)	—	(82,401,101)
Economic development and planning	3,010,807	925,650	18,493	142,908	(1,923,756)	—	(1,923,756)
Community and rural development	63,059,053	17,259,055	17,901,202	5,441,810	(22,456,986)	—	(22,456,986)
Education and training	84,170,854	5,312,895	56,058,325	1,198,202	(21,601,432)	—	(21,601,432)
Natural resources	42,957,431	73,423,766	21,258,507	1,007,204	52,732,046	—	52,732,046
Public safety	57,510,569	—	42,579,678	180,729	(14,750,162)	—	(14,750,162)
Health and welfare	148,776,887	259,624	132,309,234	2,063,149	(14,144,880)	—	(14,144,880)
Culture and recreation	3,247,852	272,096	—	—	(2,975,756)	—	(2,975,756)
Transportation	17,339,060	—	10,350,590	1,313,288	(5,675,182)	—	(5,675,182)
Interest on long-term debt	1,362,614	—	—	—	(1,362,614)	—	(1,362,614)
<b>Total governmental activities</b>	<b>532,877,956</b>	<b>114,345,787</b>	<b>292,623,806</b>	<b>11,348,540</b>	<b>(114,559,823)</b>	<b>—</b>	<b>(114,559,823)</b>
<b>Business-type activities:</b>							
Business Industrial Development Fund	3,700,903	1,654,391	—	—	—	(2,046,512)	(2,046,512)
Credit Services	650,511	830,899	—	—	—	180,388	180,388
Navajo Nation Housing	898,881	927,253	—	—	—	28,372	28,372
Archaeology Services	17,422	46,675	—	—	—	29,253	29,253
Parks and Recreation	4,417,754	13,663,579	—	—	—	9,245,825	9,245,825
Fish and Wildlife	1,591,920	710,417	—	—	—	(881,503)	(881,503)
Navajo Nation Code	1,500	2,576	—	—	—	1,076	1,076
Navajo Transit Fund	109,251	82,208	—	—	—	(27,043)	(27,043)
Livestock Custody	109,320	68,375	—	—	—	(40,945)	(40,945)
Treaty Days Celebration Fund	339,118	144,995	—	—	—	(194,123)	(194,123)
Annual Navajo Nation Fair	1,466,062	1,008,899	—	—	—	(457,163)	(457,163)
Tnbal Ranch	516,731	461,680	—	—	—	(55,051)	(55,051)
<b>Total business-type activities</b>	<b>13,819,373</b>	<b>19,601,947</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5,782,574</b>	<b>5,782,574</b>
	<b>\$ 546,697,329</b>	<b>133,947,734</b>	<b>292,623,806</b>	<b>11,348,540</b>	<b>(114,559,823)</b>	<b>5,782,574</b>	<b>(108,777,249)</b>
<b>General Revenue</b>							
Taxes (note 9):							
Business activity					3,905,858	—	3,905,858
Possessory interest					29,411,839	—	29,411,839
Fuel excise					8,971,798	—	8,971,798
Oil and gas severance					3,491,874	—	3,491,874
Sales					53,068,739	—	53,068,739
Tobacco products					227,775	—	227,775
Hotel occupancy					1,488,990	—	1,488,990
Junk food tax					1,809,202	—	1,809,202
Unrestricted investment income					232,977,566	33,636	233,011,202
Statutory allocation					—	5,186,736	5,186,736
Land, buildings, business site, and right-of-way lease					73,509,991	—	73,509,991
Transfers					(880,168)	880,168	—
<b>Total general revenues and transfers</b>					<b>407,983,464</b>	<b>6,100,540</b>	<b>414,084,004</b>
Change in net position					293,423,841	11,883,114	305,306,755
<b>Net position, beginning of year</b>					<b>3,130,551,765</b>	<b>71,003,387</b>	<b>3,201,555,152</b>
<b>Net position, end of year</b>					<b>\$ 3,423,975,406</b>	<b>82,886,501</b>	<b>3,506,861,907</b>

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
Balance Sheet – Governmental Funds  
Modified Accrual Budget Basis  
September 30, 2016

Assets	General fund (Schedule 5)	Grant fund	Permanent fund	Other governmental funds	Total governmental funds
Cash and cash equivalents (note 2)	\$ (53,861,944)	21,826,269	104,405,855	72,689,307	145,059,487
Investments (including \$5,441,210 of pledged securities) (note 2)	752,867,069	254,500,490	1,722,314,876	325,839,453	3,055,521,888
Accounts receivable, net	1,180,611	117,568	95,731	135,445	1,529,355
Accrued interest receivable	2,817,561	—	3,827,450	1,040,769	7,685,780
Note receivable (note 3)	—	—	150,195,895	55,823,328	206,019,223
Receivable from grantors	—	27,253,673	—	—	27,253,673
Due from other funds (note 5)	12,368,533	—	—	—	12,368,533
Restricted assets	515,323	1,186,975	—	—	1,702,298
<b>Total assets</b>	<b>\$ 715,887,153</b>	<b>304,884,975</b>	<b>1,980,839,807</b>	<b>455,528,302</b>	<b>3,457,140,237</b>
<b>Liabilities and Fund Balances</b>					
Liabilities:					
Accounts payable (note 6)	\$ 7,496,233	5,045,196	2,913,308	13,813,736	29,268,473
Accrued liabilities (note 6)	12,612,672	9,957,512	7,416	—	22,577,600
Due to other funds (note 5)	—	12,368,533	—	—	12,368,533
Unearned revenue	2,054,318	277,513,734	—	—	279,568,052
<b>Total liabilities</b>	<b>22,163,223</b>	<b>304,884,975</b>	<b>2,920,724</b>	<b>13,813,736</b>	<b>343,782,658</b>
Fund balances:					
Nonspendable:					
Permanent fund principal	—	—	1,827,723,188	58,171,736	1,885,894,924
Long-term receivable	—	—	150,195,895	55,751,420	205,947,315
Spendable:					
Restricted for:					
Restricted assets	515,323	—	—	—	515,323
Economic development loans	8,693,595	—	—	—	8,693,595
Education	—	—	—	60,192,945	60,192,945
Special projects	—	—	—	55,262,614	55,262,614
Other capital projects	1,500,000	—	—	9,070,105	10,570,105
Committed for:					
Other capital projects	566,826,715	—	—	153,497,539	720,324,254
Other purposes	21,016,425	—	—	49,768,207	70,784,632
Assigned to:					
Other purposes	12,228,328	—	—	—	12,228,328
Unassigned:					
General fund	82,943,544	—	—	—	82,943,544
<b>Total fund balances</b>	<b>693,723,930</b>	<b>—</b>	<b>1,977,919,083</b>	<b>441,714,566</b>	<b>3,113,357,579</b>
<b>Total liabilities and fund balances</b>	<b>\$ 715,887,153</b>	<b>304,884,975</b>	<b>1,980,839,807</b>	<b>455,528,302</b>	
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					
					481,322,394
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)					
					62,076,915
Amounts presented in the statement of net position relating to net pension outflows					
					32,275,516
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					(6,308,349)
Bond payable					(50,290,000)
Bond premium					(2,323,750)
Net pension liability					(172,619,498)
Compensated absences and retirement accrual					(13,949,047)
Amounts presented in the statement of net position relating to net pension inflows					
					(19,566,354)
<b>Net position of governmental activities</b>					<b>\$ 3,423,975,406</b>

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, 2016

Revenues	General fund (Schedule 6)	Grant fund	Permanent fund	Other governmental funds	Total governmental funds
Natural resource revenue:					
Oil and gas	\$ 20,656,515	—	—	—	20,656,515
Mining	49,509,811	—	—	—	49,509,811
Tax revenue, net (note 9)	88,100,281	—	—	14,275,794	102,376,075
Land, buildings, business site, and right-of-way revenue	71,349,309	—	—	2,160,682	73,509,991
Grant revenue	—	303,972,346	—	—	303,972,346
Interest and dividends	15,095,803	—	55,114,286	10,008,294	80,218,383
Net increase in fair value of investments	32,060,861	—	129,553,299	11,653,166	173,267,326
Other revenue	4,938,967	—	1,047,920	15,284,077	21,270,964
Statutory allocation to permanent fund	(28,634,771)	—	31,594,393	(1,712,585)	1,247,037
Statutory allocation of current year revenues	(31,655,762)	—	—	20,029,208	(11,626,554)
Total revenues	221,421,014	303,972,346	217,309,898	71,698,636	814,401,894
Expenditures					
Current:					
General government	72,949,141	12,147,777	8,215,008	13,455,474	106,767,400
Economic development and planning	4,582,333	18,493	—	251,655	4,852,481
Community and rural development	38,567,519	17,901,202	—	5,449,425	61,918,146
Education and training	21,006,655	56,058,325	—	6,886,597	83,951,577
Natural resources	19,305,971	21,258,507	—	1,488,819	42,053,297
Public safety	9,373,493	42,579,678	—	6,370,452	58,323,623
Health and welfare	15,775,601	132,309,234	—	—	148,084,835
Culture and recreation	1,099,248	—	—	1,982,108	3,081,356
Transportation	—	10,350,590	—	2,830,969	13,181,559
Debt service – principal	900,849	—	—	3,490,176	4,391,025
Capital outlay	5,009,633	11,348,540	568,665	25,244,422	42,171,260
Total expenditures	188,570,443	303,972,346	8,783,673	67,450,097	568,776,559
Excess of revenues over expenditures	32,850,571	—	208,526,225	4,248,539	245,625,335
Other Financing Sources (Uses)					
Proceeds from sale of bonds (note 7)	—	—	—	52,900,000	52,900,000
Premium on sale of bonds (note 7)	—	—	—	2,547,460	2,547,460
Refinancing of note payable (note 7)	—	—	—	(53,282,302)	(53,282,302)
Transfers (note 5)	29,681,578	—	(24,411,000)	(4,374,614)	895,964
Total other financing sources (uses)	29,681,578	—	(24,411,000)	(2,209,456)	3,061,122
Net change in fund balances (Exhibit E)	62,532,149	—	184,115,225	2,039,083	248,686,457
Fund balance, beginning of year	631,191,781	—	1,793,803,656	439,675,483	2,864,671,122
Fund balance, end of year	\$ 693,723,930	—	1,977,919,083	441,714,566	3,113,357,579

See accompanying notes to basic financial statements.

Exhibit E

THE NAVAJO NATION

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

Modified Accrual Budget Basis

Year ended September 30, 2016

Net change in fund balances – governmental funds (Exhibit D)	\$ 248,686,457
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:	
Capital outlay	\$ 47,492,588
Depreciation expense	<u>(19,765,424)</u>
	27,727,164
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position	4,391,025
Refinancing of a note payable is an other financing use in the governmental funds, but reduces long-term liabilities in the statement of net position	53,282,302
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	(55,447,460)
Bond premium amortization expense does not require the use of current financial resources and, therefore, is not reported as expenditure in the governmental funds.	223,710
Compensated absences do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	337,772
Net pension liabilities do not require the use of current financial resources and, therefore, are not reported in the governmental funds	41,325,222
Deferred outflow 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	(11,089,547)
Deferred inflow of resources related to pensions do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds	(19,566,354)
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>3,553,350</u>
Change in net position of governmental activities (Exhibit B)	<u>\$ 293,423,641</u>

See accompanying notes to basic financial statements.

THE NAVAJO NATION  
Statement of Net Position  
Proprietary Funds  
Modified Accrual Budget Basis  
September 30, 2016

Exhibit F

Assets	Business-type activities – enterprise funds	Governmental activities – internal service funds
Current assets:		
Cash and cash equivalents (note 2)	\$ 52,154,857	30,176,902
Investments (note 2)	8,816,578	40,504,084
Receivables:		
Accrued interest receivable, net	6,243	83,477
Accounts receivable	46,136	965,395
Current portion of notes receivable (note 3)	1,721,351	—
Total receivables	1,773,730	1,048,872
Total current assets	62,745,165	71,729,858
Noncurrent assets:		
Receivables:		
Notes receivable, net (note 3)	6,972,038	—
Capital assets (note 4):		
Construction in progress	3,164,606	—
Land and land development costs	739,419	—
Buildings	22,903,957	51,828
Vehicles	—	42,090,757
Equipment	1,776,478	7,041,417
Total capital assets	28,584,460	49,184,002
Accumulated depreciation	10,290,296	39,747,185
Capital assets, net	18,294,164	9,436,817
Total noncurrent assets	25,266,202	9,436,817
Total assets	88,011,367	81,166,675
<b>Deferred Outflow of Resources</b>		
Pension related outflows	645,273	751,617
Total deferred outflow of resources	645,273	751,617
Total assets and deferred outflows	\$ 88,656,640	81,918,292
<b>Liabilities, Deferred Inflow, and Net Position</b>		
Current liabilities:		
Accounts payable (note 6)	\$ 920,519	451,660
Current portion of compensated absences (note 7)	191,034	267,469
Current estimated claims payable (note 8)	—	10,886,100
Accrued liabilities (note 6)	816,188	2,768,080
Total current liabilities	1,927,741	14,373,309
Noncurrent liabilities:		
Estimated claims payable (note 7)	—	992,542
Net pension liability (note 8)	3,451,215	4,019,874
Total noncurrent liabilities	3,451,215	5,012,416
Total liabilities	5,378,956	19,385,725
Pension related inflows	391,183	455,652
Total deferred inflow of resources	391,183	455,652
Net position:		
Net investment in capital assets	18,294,164	9,436,817
Expendable restricted net position		
Restricted for claims and refunds	—	30,171,462
Unrestricted	64,592,331	22,468,636
Total net position	82,886,501	62,076,915
Total liabilities, deferred inflows, and net position	\$ 88,656,640	81,918,292

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, 2016

	Business-type activities – enterprise funds	Governmental activities – internal service funds
Operating revenues:		
Rental income	\$ 2,601,405	—
Interest income – notes receivable	733,375	—
Insurance premium income	—	50,362,148
Charges for services	15,907,048	14,766,521
Other income	360,119	109,480
Total operating revenues	19,601,947	65,238,149
Operating expenses:		
Personnel	5,199,971	5,954,386
Travel, per diem, and vehicle	802,122	482,864
Supplies	776,326	5,259,986
Contractual service	2,170,308	5,947,641
Lease, telephone, and utilities	487,767	426,716
Repairs and maintenance	608,786	572,911
Recovery of bad debts	(80,032)	(645,799)
Depreciation expense	577,484	1,844,048
Benefits and claims	—	33,000,429
Reinsurance premiums	32,955	7,877,497
Direct investment expense	2,998,615	—
Other expenses	245,071	341,305
Total operating expenses	13,819,373	61,061,984
Operating income	5,782,574	4,176,165
Nonoperating revenues:		
Interest and dividends	33,636	384,998
Net increase in fair value of investments	—	768,319
Statutory allocations	5,186,736	—
Total nonoperating revenues	5,220,372	1,153,317
Nonoperating revenues, net	5,220,372	1,153,317
Income before transfers	11,002,946	5,329,482
Transfers (note 5)	880,168	(1,776,132)
Change in net position	11,883,114	3,553,350
Net position, beginning of year	71,003,387	58,523,565
Net position, end of year	\$ 82,886,501	62,076,915

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**Modified Accrual Budget Basis**  
**Year ended September 30, 2016**

	<b>Business-type activities – enterprise funds</b>	<b>Governmental activities – internal service funds</b>
Cash flows from operating activities:		
Receipts from customers	\$ 20,274,937	14,757,808
Cash received for premiums from the government	—	27,956,310
Cash received from others for premiums	—	23,563,188
Receipt of interest on loans	733,375	—
Payments to employees for services	(4,890,392)	(5,708,742)
Payments of claims	—	(35,166,851)
Payments to suppliers	(776,326)	(5,259,986)
Payments to third parties for services	(3,484,337)	(14,881,887)
Other receipts	610,723	850,239
Net cash from operating activities	<u>12,467,980</u>	<u>6,110,079</u>
Cash flows from capital and related financing activity:		
Acquisition of capital assets	<u>(5,353,222)</u>	<u>(6,308,411)</u>
Net cash from capital and related financing activity	<u>(5,353,222)</u>	<u>(6,308,411)</u>
Cash flows from noncapital and related financing activity:		
Statutory Allocation	5,186,736	—
Transfer	880,168	(1,776,132)
Net cash from noncapital and related financing activity	<u>6,066,904</u>	<u>(1,776,132)</u>
Cash flows from investing activities:		
Purchase of investments	(13,488,136)	(60,064,168)
Sales of investments	10,981,046	58,731,762
Interest on investment and cash balances	29,754	402,682
Net cash from investing activities	<u>(2,477,336)</u>	<u>(929,724)</u>
Net increase (decrease) in cash and cash equivalents	10,704,326	(2,904,188)
Cash and cash equivalents, beginning of year	41,450,531	33,081,090
Cash and cash equivalents, end of year	<u>\$ 52,154,857</u>	<u>30,176,902</u>
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 5,782,574	4,176,165
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	577,484	1,844,048
Recovery for bad debts	(80,032)	(645,799)
Decrease in accounts receivable	172,011	1,148,573
Decrease in notes receivable	1,766,484	—
Decrease in other assets	2,928,615	—
Decrease in deferred outflows	93,081	133,718
Increase in accounts payable	1,011,265	1,507,870
(Decrease) in net pension liability	(191,408)	(348,003)
Increase in compensated absences	16,743	4,277
(Decrease) in estimated claims payable	—	(2,166,422)
Increase in deferred inflows	391,183	455,652
Total adjustments	<u>6,685,406</u>	<u>1,933,914</u>
Net cash from operating activities	<u>\$ 12,467,980</u>	<u>6,110,079</u>

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
Statement of Fiduciary Net Position  
Fiduciary Funds  
Modified Accrual Budget Basis  
September 30, 2016

<b>Assets</b>	<b>Pension trust funds</b>	<b>Private- purpose trust funds</b>
Cash and cash equivalents (note 2)	\$ 26,491,549	36,558,554
Investments (note 2)	807,680,252	149,722,573
Accrued interest receivable	1,619,564	498,769
Note receivable (note 3)	—	8,917,619
Participant loans receivable	7,343,727	—
Total assets	<u>843,135,092</u>	<u>195,697,515</u>
<b>Deferred Outflows of Resources</b>		
Pension related outflows	—	171,413
Total deferred outflows of resources	—	171,413
<b>Liabilities, Deferred Inflows, and Net Position</b>		
Accounts payable and accrued liabilities (note 6)	20,137	733,137
Net pension liability (note 8)	—	916,771
Total liabilities	<u>20,137</u>	<u>1,649,908</u>
Pension related inflows	—	103,916
Total deferred inflows of resources	—	103,916
Net position held in trust for pension benefits and other purposes	<u>\$ 843,114,955</u>	<u>194,115,104</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, 2016**

	<b>Pension trust funds</b>	<b>Private- purpose trust funds</b>
<b>Additions:</b>		
Interest and dividends	\$ 19,707,725	3,729,024
Net increase in fair value of investments	62,670,341	8,267,861
Contributions to plans (note 8)	54,926,885	—
Tax revenue (note 9)	—	10,184,140
Other revenue	479,489	161,053
Statutory allocation of current year revenue, net	—	5,192,781
Total additions	<u>137,784,440</u>	<u>27,534,859</u>
<b>Deductions:</b>		
Personnel	512,957	1,183,764
Travel	44,140	279,824
Supplies	21,204	228,751
Chapter disbursements	—	5,654,630
Tribal grants	—	3,684,779
Utilities	112,676	26,083
Repair and maintenance	262	185
Retirement benefits	43,696,327	—
Contractual services	3,517,183	848,906
Scholarship payments	—	317,486
Other	974,068	202,504
Total deductions	<u>48,878,817</u>	<u>12,426,912</u>
Change in net position	88,905,623	15,107,947
Net position, beginning of year	<u>754,209,332</u>	<u>179,007,157</u>
Net position, end of year	<u>\$ 843,114,955</u>	<u>194,115,104</u>

See accompanying notes to basic financial statements.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

**(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 Governmental 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 NAVAJO NATION**  
**Notes to Basic Financial Statements**  
**September 30, 2016**

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 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**

**(i) 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.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

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.

(ii) *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.

(iii) *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.

(iv) *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.

(v) *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.

(vi) *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.

(vii) *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.

(viii) *License Plate Revenue Fund (Included in General Fund)*

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

**THE NAVAJO NATION**  
**Notes to Basic Financial Statements**  
**September 30, 2016**

*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:

(i) *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.

(ii) *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.

(iii) *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.

(iv) *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.

(v) *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.

(vi) *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.

(vii) *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.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

(viii) *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.

(ix) *Navajo Rehabilitation Trust Fund (Nonmajor 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.

The fund qualifies as a special revenue fund as it has a recurring source of revenue through a business site lease with the Navajo Nation Gaming Enterprise (NNGE) Twin Arrows Casino and the fund is to be used for specific purposes.

(x) *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.

(xi) *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.

(xii) *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.

(xiii) *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.

(xiv) *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.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

*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:

(i) *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.

(ii) *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:

(i) *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.

(ii) *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.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

*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:

(i) *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.

(ii) *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.

(iii) *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.

(iv) *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.

(v) *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.

(vi) *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.

(vii) *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.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

(viii) *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.

(ix) *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.

(x) *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.

(xi) *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.

(xii) *Tribal Ranch Fund (Nonmajor Fund)*

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

*Internal Service Fund Type*

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

(i) *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.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

(ii) *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.

(iii) *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.

(iv) *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.

(v) *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.

(vi) *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.

(vii) *Workers' Compensation Self-Insurance Fund (Nonmajor Fund)*

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

(viii) *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.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

*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*

(i) *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.

(ii) *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.

(iii) *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*

(i) *Handicapped Services Trust Fund*

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

(ii) *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.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

(iii) *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.

(iv) *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.

(v) *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.

(vi) *Sales Tax Trust Fund*

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

(vii) *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.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

(viii) *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.

(ix) *Navajo Bennett Freeze Trust Fund*

The Navajo Bennett Freeze Trust 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 and right-of-way revenue, which are recognized when received. Interest income generated by assets of the Grant Fund is recorded in the General Fund. Other financing sources include the proceeds of long-term debt and obligations under capital leases. Notes receivable from related enterprises are recorded as assets of the funds that financed the notes.

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

In applying the susceptible to accrual concept to Grant Fund 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.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

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 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 \$2,218,091,374 of restricted net position, of which \$2,008,090,545 is restricted by enabling legislation (restricted for claims and refunds and restricted for future government operations).

*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.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

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:

(i) *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.

(ii) *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.

(iii) *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.

(iv) *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.

(v) *Unassigned Fund Balance*

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

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

(f) ***Budgetary Information***

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

(g) ***Cash, 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.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

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.

**(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.

**THE NAVAJO NATION**  
**Notes to Basic Financial Statements**  
September 30, 2016

**(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) Adoption of New GASB pronouncements**

The Nation adopted GASB Statement No. 72, *Fair Value Measurement and Application*. GASB 72 provides guidance for determining a fair value measurement for financial reporting purposes. The Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

During the year ended September 30, 2016, the Nation implemented GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, that supersedes GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and identifies the hierarchy of generally accepted accounting principles for state and local governments.

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

A summary of cash and investments as of September 30, 2016 is as follows:

Cash, including money market accounts	\$ 290,441,349
Certificates of deposit	5,443,542
Government and federal agency obligations	877,377,167
Municipal bonds	7,986,738
Corporate bonds	601,789,015
Corporate obligations	82,053,090
Marketable securities	1,994,601,764
Alternative investments	271,465,198
Mutual funds	203,130,990
High yield fixed income funds	18,397,871
Total cash and investments	<u>\$ 4,352,686,724</u>

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

Government-wide financial statements (Exhibit A):

Cash and cash equivalents	\$ 22,235,640
Investments	970,548,418
Restricted cash and cash equivalents	205,155,606
Restricted investments	2,134,294,132

Fiduciary funds statement of net assets (Exhibit I):

Pension trust funds:	
Cash and cash equivalents	26,491,549
Investments	807,680,252
Private-purpose trust funds:	
Cash and cash equivalents	36,558,554
Investments	149,722,573
	<u>\$ 4,352,686,724</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, 2016, the Nation's deposits were not exposed to custodial credit risk as uninsured or uncollateralized.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

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, 2016, the Nation is not exposed to investment custodial credit risk as all of the Nation's investments are held in the Nation's name.

**(c) Credit Risk**

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

- Limiting investments to the 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 rata share of mutual fund fixed income as of September 30, 2016:

Rating	Government and federal agency obligations	Municipal bonds	Corporate bonds	Corporate obligations	High yield fixed income funds	Total
AAA	\$ —	96,970	2,712,785	45,592,513	263,466	48,665,734
AA	460,132,404	1,163,520	34,602,727	8,831,581	—	504,730,232
A	144,154	6,224,366	297,617,897	8,796,383	—	312,782,800
BBB	2,715,739	—	248,624,512	6,297,293	622,222	258,259,766
BB	121,331	—	11,902,379	1,449,821	7,901,155	21,374,686
B	—	—	2,370,190	746,585	9,177,285	12,294,060
CCC	—	—	188,531	3,766,035	220,636	4,175,202
CC	—	—	—	663,557	—	663,557
D	—	—	19,125	1,897,424	—	1,916,549
Not rated	3,722,171	501,882	3,750,869	4,011,898	213,107	12,199,927
U.S. government guaranteed	410,541,368	—	—	—	—	410,541,368
	<u>\$ 877,377,167</u>	<u>7,986,738</u>	<u>601,789,015</u>	<u>82,053,090</u>	<u>18,397,871</u>	<u>1,587,603,881</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.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

As of September 30, 2016, the Nation had the following investments and maturities:

Investment type	Fair value	Investment maturities			
		Less than 1 year	1–5 years	6–10 years	10 years +
Certificates of deposit	\$ 5,443,542	5,443,542	—	—	—
Government and federal agency obligations	877,377,167	456,382,914	101,830,791	55,542,090	263,621,372
Municipal bonds	7,986,738	—	1,442,244	3,849,490	2,695,004
Corporate bonds	601,789,015	180,899,932	244,081,726	85,181,339	91,626,018
Corporate obligations	82,053,090	99,917	25,029,990	3,301,768	53,621,415
High yield fixed income funds	18,397,871	826,072	8,296,942	8,583,121	691,736
	<u>\$ 1,593,047,423</u>	<u>643,652,377</u>	<u>380,681,693</u>	<u>156,457,808</u>	<u>412,255,545</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 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	2,076,994	558,062	—	—	2,635,056
Bermuda	Dollar	208,300	—	—	—	208,300
Brazil	Real	941,575	—	—	—	941,575
Canada	Dollar	13,242,753	5,000,496	144,153	2,979,031	21,366,433
Cayman Islands	Dollar	—	2,918,540	—	—	2,918,540
Chile	Peso	463,507	—	—	—	463,507
China	Yuan	670,509	—	—	1,267,258	1,937,767
Colombia	Peso	214,250	—	—	—	214,250
Costa Rica	Colon	420,500	—	—	—	420,500
Dominican Republic	Peso	422,600	—	—	—	422,600
EA FEA	NA	—	—	—	18,654,094	18,654,094



**THE NAVAJO NATION**  
**Notes to Basic Financial Statements**  
**September 30, 2016**

<b>Country</b>	<b>Currency</b>	<b>Corporate bonds</b>	<b>Municipal bonds and corporate obligations</b>	<b>Government and federal agency obligations</b>	<b>Marketable securities</b>	<b>Total</b>
Europe	Euro	50,013,065	—	—	364,995,733	415,008,798
Guatemala	Quetzal	198,000	—	—	—	198,000
Hong Kong	Dollar	—	—	—	964,795	964,795
India	Rupee	202,519	—	—	—	202,519
Israel	Shekel	2,863,733	—	—	—	2,863,733
Jamaica	Dollar	191,175	—	—	—	191,175
Japan	Yen	868,409	—	—	—	868,409
Mexico	Peso	2,815,254	—	2,400,708	2,394,822	7,610,784
Norway	Krone	1,940,316	—	—	—	1,940,316
Panama	Balboa	388,757	—	110,500	—	499,257
Peru	Inti	—	—	204,531	—	204,531
Singapore	Dollar	415,293	—	—	—	415,293
Qatar	Rial	—	—	201,889	—	201,889
		<u>78,557,509</u>	<u>8,477,098</u>	<u>3,061,781</u>	<u>391,255,733</u>	<u>481,352,121</u>

**(g) Pledged Securities**

As of September 30, 2016, the Nation pledged a \$5,441,210 certificate of deposit as security for debt of the Navajo Nation Hospitality Enterprise, a related party.

**(h) Fair Value Measurement**

The Nation categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset.

- *Level 1* inputs are quoted prices (unadjusted) for identical assets in active markets, accessible at the measurement date. Level 1 inputs include exchange markets, dealer markets, brokered markets, and principal-to-principal markets.
- *Level 2* inputs are inputs – other than quoted prices included within Level 1 – that are observable for an asset, either directly or indirectly. Level 2 inputs include quoted prices for similar assets in active markets and quoted prices for identical or similar assets in markets that are not active.
- *Level 3* inputs are unobservable inputs for an asset.

Investments that do not have a readily determinable fair value are recorded using net asset value (NAV). NAV is generally provided by the investment managers but the Nation considers the reasonableness of the NAV, based on market information, to arrive at the fair value estimates for each investment.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

The Nation has the following recurring fair value measurements as of September 30, 2016:

	Fair value measurement using			
	Fair value	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
Investments held by the Nation:				
Certificates of deposit	\$ 5,443,542	5,443,542	—	—
Governmental and federal agency obligations	877,377,167	—	877,377,167	—
Municipal bonds	7,986,738	—	7,986,738	—
Corporate bonds	601,789,015	—	601,789,015	—
Corporate obligations	82,053,090	—	82,053,090	—
Mutual funds	203,130,990	203,130,990	—	—
Marketable securities	1,994,601,764	1,994,601,764	—	—
Total investments held by the Nation	\$ <u>3,772,382,306</u>	<u>2,203,176,296</u>	<u>1,569,206,010</u>	<u>—</u>
	Fair Value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments measured at the net asset value (NAV):				
Real estate funds (1)	\$ 271,465,198	—	45 to 90 days	Quarterly
High yield fixed income funds (2)	<u>18,397,871</u>	<u>—</u>	3 days	Daily
Total investments measured at the NAV	<u>289,863,069</u>	\$ <u>—</u>		
Total investments held	\$ <u>4,062,245,375</u>			

- (1) *Real estate funds.* This type includes three real estate funds that invest primarily in U.S. commercial real estate. The fair values of the investments in this type have been determined using the NAV per share of the partner's capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated.
- (2) *High yield fixed income funds.* This type includes two investments in fixed income funds that invest in high yield corporate and governmental obligations. The fair values of the investments in this type have been determined using the NAV per share of the partner's capital. Distributions from each fund will be received as the underlying investments of the funds are liquidated.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

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

**(a) Governmental Accounts Receivable**

Accounts receivable from grantors of \$27,253,673 represent the majority of the governmental activities restricted accounts receivable balance at September 30, 2016.

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

Notes receivable in the governmental funds and private-purpose trust funds primarily represent loans to the NNGE, a related party, to fund construction of casinos.

On April 3, 2012, the existing separate notes receivables were consolidated, along with the extension of additional credit in the form of 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 required interest-only payments from the closing date (April 3, 2012) to June 30, 2013. Thereafter, the loan requires interest and principal payments based on a 15-year amortization schedule with the remaining principal balance due at maturity (March 31, 2020).

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 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 subordinate debt. Any interest that was not paid on a current basis was accrued as a liability of NNGE.

The forbearance agreement was amended on April 29, 2014, August 31, 2014, and December 31, 2014, to extend the forbearance through August 31, 2014, December 31, 2014, and March 31, 2015, respectively. On January 9, 2015, NNGE and the Nation agreed to a three-year extension of the forbearance agreement to December 31, 2017. Also, on January 9, 2015, 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 12-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. On January 1, 2018, the repayment terms of the Consolidated Note revert to the terms in the 2012 Credit Agreement if the forbearance agreement is not extended or the 2012 Consolidated Note is not refinanced. The 2012 Consolidated Note 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 March 31, 2020. As of September 30, 2016, the principal balance is \$210,165,386.

**THE NAVAJO NATION**  
**Notes to Basic Financial Statements**  
**September 30, 2016**

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 for fiscal year 2016 of \$17,948,802. Interest income that would have been reported if the note was not restructured would have been \$27,681,794.

In 2010, the Navajo Hopi Land Commission entered into an agreement with NNGE to fund the purchase of the land which the Twin Arrows Casino project sits on for \$3,715,777 funded by the Navajo Nation Rehabilitation Trust Fund. Subsequently, the land was brought into Trust and ownership was transferred to the Navajo Nation. On January 9, 2015, the Navajo Hopi Land Commission agreed to reset the amortization of the note. The note has a 30-year amortization with a 10% interest rate. The outstanding principal balance at September 30, 2016 is \$3,534,538.

**(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, 2016:

	<b>Governmental activities</b>		<b>Fiduciary</b>	
	<b>Restricted</b>	<b>Unrestricted</b>	<b>funds</b>	<b>Total</b>
Notes receivable:				
Permanent Fund	\$ 150,195,895	—	—	150,195,895
Chapter Government Nation				
Building Fund	8,241,995	—	—	8,241,995
Land Acquisition Fund	—	37,626,909	—	37,626,909
Scholarship Funds	5,182,968	—	—	5,182,968
Navajo Rehabilitation Trust Fund	3,534,538	—	—	3,534,538
Handicapped Services Fund	—	—	1,251,991	1,251,991
Senior Citizen Services Fund	—	—	1,074,598	1,074,598
Vocational Education Fund	—	—	1,250,890	1,250,890
Veterans' Trust Fund	—	—	5,340,140	5,340,140
NNGE note receivable	167,155,396	37,626,909	8,917,619	213,699,924
NTUA Key Bank Loan Fund	1,236,918	—	—	1,236,918
Receivable from Grantors:				
Grant Fund	27,253,673	—	—	27,253,673
Accounts receivable:				
General Fund	—	1,180,611	—	1,180,611
Navajo Rehabilitation Trust Fund	79,363	—	—	79,363
Grant Fund	117,568	—	—	117,568
Permanent Fund	95,731	—	—	95,731
Navajo Tourism Fund	—	33,292	—	33,292
Water Rights Fund	—	15,000	—	15,000
Chapter Government Nation				
Building Fund	7,790	—	—	7,790
Duplicating Services	—	3,598	—	3,598

**THE NAVAJO NATION**  
**Notes to Basic Financial Statements**  
September 30, 2016

	<b>Governmental activities</b>		<b>Fiduciary</b>	
	<b>Restricted</b>	<b>Unrestricted</b>	<b>funds</b>	<b>Total</b>
Office Supply Center	\$ —	279,800	—	279,800
Group Health Self-Insurance Fund	562,884	—	—	562,884
Workers' Compensation Insurance Fund	118,913	—	—	118,913
Contingency Management Fund	—	200	—	200
	<u>\$ 196,628,236</u>	<u>39,139,410</u>	<u>8,917,619</u>	<u>244,685,265</u>

**(d) Note Receivable with Navajo Tribal Utility Authority**

The note receivable in the governmental funds represents a loan to the Navajo Tribal Utility Authority (NTUA), a related party, 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, 2016, the note balance is \$1,236,918.

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

Notes receivable for business-type activities consist of the following as of September 30, 2016:

Business industrial development fund:

Big business loans	\$ 2,069,432
Small business loans	2,532,676
Micro loan program	<u>143,458</u>
	4,745,566

Less allowance for doubtful notes:

Big business loans	(1,723,976)
Small business loans	(2,457,363)
Micro loans	<u>(140,697)</u>

Business industrial development fund loans, net	<u>423,530</u>
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Loan fund:

Home loans	8,024,887
Personal loans	824,840
Veterans' loans	<u>687,701</u>
	9,537,428



**THE NAVAJO NATION**  
**Notes to Basic Financial Statements**  
**September 30, 2016**

Less allowance for doubtful notes:	
Home loans	\$ (615,861)
Personal loans	(181,436)
Veterans' loans	<u>(470,272)</u>
Loan fund loans, net	<u>8,269,859</u>
Notes receivable, net	8,693,389
Less portion due within one year	<u>1,721,351</u>
Notes receivable due in more than one year	<u>\$ 6,972,038</u>

**(4) Capital Assets**

A summary of changes in capital assets for the year ended September 30, 2016 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	\$ 90,481,425	—	—	—	90,481,425
Construction in progress	<u>33,642,266</u>	<u>35,808,776</u>	<u>—</u>	<u>(24,960,257)</u>	<u>44,490,785</u>
Total capital assets not being depreciated	<u>124,123,691</u>	<u>35,808,776</u>	<u>—</u>	<u>(24,960,257)</u>	<u>134,972,210</u>
Capital assets being depreciated:					
Building and improvements	383,506,458	4,229,470	—	24,960,257	412,696,185
Equipment	79,413,459	3,604,943	(32,157)	—	82,986,245
Furniture and fixtures	6,376,271	268,298	—	—	6,644,569
Vehicles	<u>103,484,819</u>	<u>9,914,437</u>	<u>(1,012,461)</u>	<u>—</u>	<u>112,386,795</u>
Total capital assets being depreciated	<u>572,781,007</u>	<u>18,017,148</u>	<u>(1,044,618)</u>	<u>24,960,257</u>	<u>614,713,794</u>

**THE NAVAJO NATION**  
**Notes to Basic Financial Statements**  
**September 30, 2016**

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending balance</u>
Less accumulated depreciation:					
Building and improvements	\$ 84,379,763	10,570,505	—	—	94,950,268
Equipment	57,802,091	5,243,444	(32,157)	—	63,013,378
Furniture and fixtures	2,958,500	779,280	—	—	3,737,780
Vehicles	93,196,660	5,016,243	(987,536)	—	97,225,367
Total accumulated depreciation	<u>238,337,014</u>	<u>21,609,472</u>	<u>(1,019,693)</u>	<u>—</u>	<u>258,926,793</u>
Depreciable capital assets, net	<u>334,443,993</u>	<u>(3,592,324)</u>	<u>(24,925)</u>	<u>24,960,257</u>	<u>355,787,001</u>
Governmental activities, capital assets, net	<u>\$ 458,567,684</u>	<u>32,216,452</u>	<u>(24,925)</u>	<u>—</u>	<u>490,759,211</u>

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ —	3,164,606	—	3,164,606
Land and land development costs	<u>739,419</u>	<u>—</u>	<u>—</u>	<u>739,419</u>
Total capital assets not being depreciated	<u>739,419</u>	<u>3,164,606</u>	<u>—</u>	<u>3,904,025</u>
Capital assets being depreciated:				
Buildings and improvements	<u>20,734,916</u>	<u>2,169,041</u>	<u>—</u>	<u>22,903,957</u>
Equipment	<u>1,756,903</u>	<u>19,575</u>	<u>—</u>	<u>1,776,478</u>
Total depreciable capital assets	<u>22,491,819</u>	<u>2,188,616</u>	<u>—</u>	<u>24,680,435</u>
Less accumulated depreciation for:				
Buildings	<u>8,670,049</u>	<u>402,924</u>	<u>—</u>	<u>9,072,973</u>
Equipment	<u>1,042,763</u>	<u>174,560</u>	<u>—</u>	<u>1,217,323</u>
Total accumulated depreciation	<u>9,712,812</u>	<u>577,484</u>	<u>—</u>	<u>10,290,296</u>
Depreciable capital assets, net	<u>12,779,007</u>	<u>1,611,132</u>	<u>—</u>	<u>14,390,139</u>
Business-type activities, capital assets, net	<u>\$ 13,518,426</u>	<u>4,775,738</u>	<u>—</u>	<u>18,294,164</u>

**THE NAVAJO NATION**  
**Notes to Basic Financial Statements**  
**September 30, 2016**

Depreciation expense was charged to functions as follows:

<b>Governmental activities:</b>	
General government	\$ 3,256,149
Economic development and planning	280,797
Community and rural development	1,576,072
Education and training	842,619
Natural resources	1,207,589
Public safety	5,415,353
Health and welfare	2,026,789
Culture and recreation	209,140
Transportation	4,950,916
Internal service funds	<u>1,844,048</u>
Total governmental activities depreciation expense	<u>\$ 21,609,472</u>
<b>Business-type activities:</b>	
Business and Industrial Development Fund	\$ 306,452
Parks and Recreation	106,073
Fish and Wildlife	37,620
Navajo Transit Fund	97,272
Livestock Custody Fund	24,307
Tribal Ranch Fund	<u>5,760</u>
Total business-type activities depreciation expense	<u>\$ 577,484</u>

**(5) Interfund Activity**

The composition of interfund activity as of September 30, 2016 is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Grant Fund	Grant expenditures	\$ 12,368,533
			<u>\$ 12,368,533</u>

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

At September 30, 2016, the following funds have deficit net positions, as follows:

<b>Fund</b>	<b>Cash and cash equivalents</b>	<b>Net position</b>
Archaeology Services Fund	\$ (2,091,101)	(2,091,101)
Air Transportation Fund	(2,988,130)	(1,600,463)
Navajo Trust Fund	(94,646)	(57,659)
Fourth of July Celebration Fund	(94,538)	(124,386)
Group Health Self-Insurance Fund	506,637	(9,693,087)

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.

Interfund transfers are summarized as follows:

		Transfers from					Total	Purpose
		General Fund	Permanent Fund	Tax Suspense Fund	Parks and Recreation Fund	Contingency Management Fund		
		Navajo Rehabilitation Trust Fund (General Fund)						
Transfers to:								
Capital Outlay Match Fund	\$ 2,000,000	—	—	—	—	—	2,000,000	Required transfer
Water Rights Fund	2,000,000	—	—	—	—	—	2,000,000	Required transfer
Fish and Wildlife	867,052	—	—	—	—	—	867,052	Operating
Navajo Transit Fund	12,355	—	—	—	—	—	12,355	Operating
Employee Housing Fund	761	—	—	—	—	—	761	Operating
Air Transportation Fund	571,974	—	—	—	—	—	571,974	Operating
General Fund	—	24,411,000	13,000,000	—	2,348,106	—	39,759,106	Provide support
Annual Navajo Nation Fair	—	—	—	466,566	—	—	466,566	Provide support
Navajo Rehabilitation Trust Fund (nonmajor Governmental Fund)	—	—	—	—	—	6,625,386	6,625,386	Special revenue
<b>Total</b>	<b>\$ 5,452,142</b>	<b>24,411,000</b>	<b>13,000,000</b>	<b>466,566</b>	<b>2,348,106</b>	<b>6,625,386</b>	<b>52,303,200</b>	

The Navajo Rehabilitation Trust Fund (General Fund) was transferred to the Navajo Rehabilitation Trust Fund (nonmajor Governmental Fund), which was previously classified as a General Fund, into a special revenue fund. The fund qualifies as a special revenue fund as it has a recurring source of revenue through a business site lease with the NNGE Twin Arrows Casino and the fund is to be used for specific purposes.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

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

Accounts payable and accrued liabilities as of September 30, 2016 are as follows:

	<u>Vendors</u>	<u>Salaries and benefits</u>	<u>Construction contract payables</u>	<u>Other</u>	<u>Total</u>
Governmental activities:					
General Fund	\$ 8,775,800	7,688,813	343,933	3,300,359	20,108,905
Grant Fund	8,738,505	5,411,810	852,393	—	15,002,708
Permanent Fund	2,913,308	7,416	—	—	2,920,724
Aggregate nonmajor funds	5,888,010	496,515	2,521,731	4,907,480	13,813,736
Internal Service Funds	<u>1,491,841</u>	<u>196,585</u>	<u>—</u>	<u>1,531,314</u>	<u>3,219,740</u>
Total governmental activities	<u>\$ 27,807,464</u>	<u>13,801,139</u>	<u>3,718,057</u>	<u>9,739,153</u>	<u>55,065,813</u>
Business-type activities:					
Enterprise funds	\$ 1,141,404	193,162	264,959	137,182	1,736,707

**(7) Long-Term Liabilities**

The Nation has two outstanding notes payable as of September 30, 2016. These notes payable are recorded in the governmental activities Section of the government-wide financial statements:

Note payable to bank – 1.5% plus LIBOR (NTUA)	\$ 1,416,922
Note payable to bank – 3.683% and 2.432% (FMIS)	<u>4,891,427</u>
Total payable	<u>\$ 6,308,349</u>



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
NTUA:			
2017	\$ 940,805	16,119	956,924
2018	<u>476,117</u>	<u>2,270</u>	<u>478,387</u>
	<u>\$ 1,416,922</u>	<u>18,389</u>	<u>1,435,311</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
FMIS:			
2017	\$ 869,164	113,580	982,744
2018	891,326	91,418	982,744
2019	914,063	68,681	982,744
2020	937,389	45,355	982,744
Thereafter	<u>1,279,485</u>	<u>23,139</u>	<u>1,302,624</u>
	<u>\$ 4,891,427</u>	<u>342,173</u>	<u>5,233,600</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 loan in the amount of \$53,646,562 to refinance the 2010 BAB loan. The loan required monthly principal payments of approximately \$180,000. The senior unsecured general obligation tax-exempt loan was refinanced during 2016 with the proceeds from a general obligation bond.

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

On December 30, 2014, the Nation drew down \$6,300,000 on its unsecured general obligation credit facility with a 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.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

On November 17, 2015, the Nation issued \$52,900,000 of general obligation bonds under Securities and Exchange Commission (SEC) Rule 144A. The bonds payable were issued to refinance a general obligation loan. The bonds payable carry tax-exempt coupon rates of 2.9% to 5.5%. The bonds require semiannual debt service payments beginning on November 2016. The bonds mature on December 1, 2020 to December 1, 2030.

Description of issue	Bonds issued	Range of interest	Scheduled maturities		First call
			First year	Last year	
General Obligation 2016 Series A	\$ 52,900,000	2.9%–5.5%	2020	2030	2016

	Principal	Interest	Total
General Obligation Series A – 144A			
2017	\$ —	2,354,100	2,354,100
2018	2,775,000	2,276,018	5,051,018
2019	2,855,000	2,194,383	5,049,383
2020	2,940,000	2,110,355	5,050,355
2021	3,025,000	2,023,863	5,048,863
2022–2026	16,955,000	8,109,067	25,064,067
2027–2031	21,740,000	3,116,857	24,856,857
	<u>\$ 50,290,000</u>	<u>22,184,643</u>	<u>72,474,643</u>

Changes in long-term liabilities for the year ended September 30, 2016 were as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Notes payable	\$ 61,371,676	—	55,063,327	6,308,349	1,809,969
Bonds Payable	—	52,900,000	2,610,000	50,290,000	—
Bond Premium	—	2,547,460	223,710	2,323,750	223,710
Compensated absences	14,550,011	13,656,786	13,990,281	14,216,516	13,990,281
Net pension liability	218,312,597	35,923,636	77,596,861	176,639,372	—
Claims and judgments	14,045,064	37,047,137	39,213,559	11,878,642	10,886,100
Governmental activities long-term liabilities	<u>\$ 308,279,348</u>	<u>142,075,019</u>	<u>188,697,738</u>	<u>261,656,629</u>	<u>26,910,060</u>

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

	<u>Beginning balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending balance</u>	<u>Due within one year</u>
Business-type activities:					
Compensated absences	\$ 174,291	218,937	202,194	191,034	191,034
Net pension liability	<u>3,642,623</u>	<u>162,981</u>	<u>354,389</u>	<u>3,451,215</u>	<u>—</u>
Business-type activities long-term liabilities	<u>\$ 3,816,914</u>	<u>381,918</u>	<u>556,583</u>	<u>3,642,249</u>	<u>191,034</u>

There were no long-term liabilities recorded in the General Fund, Grant Fund, or the Permanent Fund. The notes payable, bonds 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 (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.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

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, 2016.

*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.

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, 2016, the Nation reported the following membership in the Plan:

	<u>Total</u>
Retired participants	\$ 3,579
Terminated vested participants	4,622
Active participants	<u>4,550</u>
Total covered employees	\$ <u>12,751</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, 2016, the required contribution rate approximated 25% of covered payroll.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

**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, 2016. 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, 2015 and used update procedures to roll forward the total pension liability to the pension plan's fiscal year-end of September 30, 2016. 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, 2016) and for the Nation's reporting period (the fiscal year ended September 30, 2016). These amounts are measured as of the 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, 2016, 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, 2016 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, 2015, to the measurement date of September 30, 2016.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

*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:

	<b>Increase (decrease)</b>		
	<b>Total pension liability (a)</b>	<b>Plan fiduciary net position (b)</b>	<b>Net pension liability (a) – (b)</b>
Balance at September 30, 2015	\$ 882,171,896	659,002,063	223,169,833
Changes for the year:			
Service cost	13,296,711	—	13,296,711
Interest	60,576,318	—	60,576,318
Differences between expected and actual experience	1,506,780	—	1,506,780
Contributions – employer	—	46,472,455	(46,472,455)
Investment income (loss) net of investment expense	—	72,162,248	(72,162,248)
Benefit payments, including refunds of employee contributions	(34,169,761)	(34,169,761)	—
Administrative expenses	—	(1,092,419)	1,092,419
Other changes	—	—	—
Net changes	<u>41,210,048</u>	<u>83,372,523</u>	<u>(42,162,475)</u>
Balance at September 30, 2016	<u>\$ 923,381,944</u>	<u>742,374,586</u>	<u>181,007,358</u>

Additional information regarding the changes in the net pension liability for the year ended September 30, 2016 can be found in the Required Supplementary Information immediately following these notes to the financial statements.

*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 NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

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, 2016, the Nation reported the following deferred pension outflows of resources and deferred inflows of resources:

<b>Source</b>	<b>Deferred outflows of resources</b>	<b>Deferred inflows of resources</b>
Differences between expected and actual experience	\$ 2,239,040	—
Changes of assumptions	—	—
Net differences between projected and actual earnings on plan investments	<u>31,604,779</u>	<u>(20,517,105)</u>
Total	<u>\$ 33,843,819</u>	<u>(20,517,105)</u>

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

<b>Year ended September 30</b>	<b>Amount</b>
2017	\$ 7,232,979
2018	5,817,359
2019	5,405,651
2020	<u>(5,129,275)</u>
Total	<u>\$ 13,326,714</u>

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

*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, 2016, is as follows:

Service cost	\$ 13,296,711
Interest on the total pension liability	60,576,318
Differences between expected and actual experience	2,362,866
Changes of assumptions	—
Employee contributions	—
Projected earnings on pension plan investments	(46,515,868)
Differences between projected and actual earnings on plan investments	5,405,649
Pension plan administrative expense	1,092,419
Other changes in fiduciary net position	—
Total pension expense	<u>\$ 36,218,095</u>

**THE NAVAJO NATION**  
**Notes to Basic Financial Statements**  
**September 30, 2016**

*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, 2016. 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:	
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, 2016 can be found in the Other Information section immediately following these notes to the financial statements.

**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

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, 2016 (see the discussion of the pension plan's investment policy):

<u>Asset class</u>	<u>Target allocation</u>	<u>Long-term expected real rate of return</u>
Domestic equity	41.00 %	7.27 %
International equity	12.00	8.90
Fixed income	22.00	4.44
Real estate	10.00	6.88
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, 2016 was – 11.15%. A money-weighted rate of return expresses investment performance, net of pension plan investment expense, adjusted for the changing amounts actually invested.



**THE NAVAJO NATION**  
Notes to Basic Financial Statements  
September 30, 2016

*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:

	<b>1 percentage decrease (6%)</b>	<b>Current discount rate (7%)</b>	<b>1 percentage increase (8%)</b>
Nation's net pension liability	\$ 285,118,864	181,007,358	93,161,759

*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 \$2,484,630 and employee contributions were \$5,650,464 for the year ended September 30, 2016.

**(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, 2016 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, 2016 has been 3%.

**THE NAVAJO NATION**  
**Notes to Basic Financial Statements**  
**September 30, 2016**

**(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, 2016 are 18 cents per gallon of gasoline and 25 cents per gallon of diesel fuel.

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

Effective October 1, 1985, a tax was imposed on those who are engaged in the severance of oil and natural gas products within the Nation. The taxes are assessed on the value of the products severed. According to the Code, the annual tax rate shall not be less than 3% or more than 8%. The rate in effect from the imposition of the tax through September 30, 2016 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, 2016 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, 2016 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, 2016 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, 2016**

Tax revenues for the year ended September 30, 2016 are summarized as follows:

	General Fund	Navajo Tourism Fund	Navajo Roads Fund	Healthy Dine Act Fund	Tax Suspense Fund	Total
Business activity tax	\$ 3,827,652	—	—	—	78,206	3,905,858
Possessory interest tax	28,823,602	—	—	—	588,237	29,411,839
Fuel excise tax	—	—	8,792,362	—	179,436	8,971,798
Oil and gas severance tax	3,422,037	—	—	—	69,837	3,491,874
Sales tax	51,803,681	—	—	—	1,265,058	53,068,739
Tobacco products tax	223,309	—	—	—	4,466	227,775
Hotel occupancy tax	—	1,459,210	—	—	29,780	1,488,990
Junk food tax	—	—	—	1,773,018	36,184	1,809,202
Total tax revenue	\$ 88,100,281	1,459,210	8,792,362	1,773,018	2,251,204	102,376,075

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 \$10,184,140 in tax revenue for the year ended September 30, 2016.

**(10) Commitments and Contingent Liabilities**

The following are the significant financial commitments and contingent liabilities of the Nation at September 30, 2016, 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 \$134,326.

**(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 for matters related to the Hopi Tribe, 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, 2016

**(b) 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.

**(c) 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, 2016, premiums of \$2,328,679 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 \$600,000.

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, 2016

The amounts and changes in the Nation's Risk Management program claims payable for the years ended September 30, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
<b>Property and Casualty Self-Insurance (Risk Management)</b>		
Fund:		
Claims payable, beginning of year	\$ 1,723,714	4,324,247
Current year claims and changes in estimates	1,649,744	(1,648,610)
Claim payments	<u>(1,490,972)</u>	<u>(951,923)</u>
Claims payable, end of year	<u>\$ 1,882,486</u>	<u>1,723,714</u>
<b>Workers' Compensation Self-Insurance Fund:</b>		
Claims payable, beginning of year	\$ 422,942	1,713,490
Current year claims and changes in estimates	1,609,264	(272,474)
Claim payments	<u>(1,728,592)</u>	<u>(1,018,074)</u>
Claims payable, end of year	<u>\$ 303,614</u>	<u>422,942</u>
<b>Group Health Benefit Self-Insurance Fund:</b>		
Claims payable, beginning of year	\$ 6,380,000	6,600,000
Current year claims and changes in estimates	33,788,129	27,887,447
Claim payments	<u>(31,468,129)</u>	<u>(28,107,447)</u>
Claims payable, end of year	<u>\$ 8,700,000</u>	<u>6,380,000</u>

**(13) Subsequent Event**

The Nation has evaluated whether any events have occurred subsequent to June 30, 2017, that would require disclosure and has determined that no such have occurred through the date which these financial statements were available to be issued.



## THE NAVAJO NATION

## General Fund

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

Year ended September 30, 2016

	Original budget	Final budget	Actual (budgetary basis)	September 30, 2016 Designated fund balance carryover	Budget variance favorable (unfavorable)
<b>Revenues</b>					
Natural resource revenue:					
Oil and gas	\$ 32,346,000	32,346,000	20,656,515	—	(11,689,485)
Mining	55,102,000	55,102,000	49,509,811	—	(5,592,189)
Tax revenue, net (note 10)	66,983,000	66,983,000	88,100,281	—	21,117,281
Land, buildings, business site, and right-of-way revenue	62,354,000	62,354,000	71,349,309	—	8,995,309
Interest and dividends	400,000	400,000	4,111,186	—	3,711,186
Net decrease in fair value of investments	—	—	(6,131)	—	(6,131)
Other revenue	600,000	600,000	4,900,228	—	4,300,228
Transfer to permanent fund	(26,134,000)	(26,134,000)	(28,634,771)	—	(2,500,771)
Transfer of current year revenues (expenses)	(28,267,000)	(28,267,000)	(31,655,762)	—	(3,388,762)
Total revenues	<u>163,384,000</u>	<u>163,384,000</u>	<u>178,330,666</u>	<u>—</u>	<u>14,946,666</u>
<b>Expenditures</b>					
General government	92,348,034	104,873,431	78,787,149	10,099,489	15,986,793
Economic development and planning	5,013,540	5,216,250	4,572,448	50,890	592,912
Community and rural development	37,106,172	41,767,050	39,321,574	684,289	1,761,187
Education and training	20,024,257	29,221,383	20,753,888	5,265,024	3,202,471
Natural resources	20,004,817	23,098,162	18,258,440	988,502	3,851,220
Public safety	9,851,878	9,958,372	9,492,154	235,666	230,552
Health and welfare	16,895,284	17,378,811	18,044,846	407,859	(1,073,894)
Culture and recreation	1,037,357	1,486,242	1,121,494	232,614	364,748
Total expenditures	<u>202,281,339</u>	<u>232,999,701</u>	<u>190,351,993</u>	<u>17,964,333</u>	<u>24,915,989</u>
<b>Other financing sources (uses)</b>					
Transfers	13,000,000	13,000,000	34,306,964	—	21,306,964
Total other financing uses	<u>13,000,000</u>	<u>13,000,000</u>	<u>34,306,964</u>	<u>—</u>	<u>21,306,984</u>
Net change under budgetary basis	<u>\$ (25,897,339)</u>	<u>(56,615,701)</u>	<u>22,285,637</u>	<u>(17,964,333)</u>	<u>61,169,619</u>
Reconciliation of budgetary basis net change to net change from schedule 6:					
Add beginning encumbrances			(9,144,719)		
Less ending encumbrances			12,228,328		
Modified accrual budget net change in fund balance			<u>\$ 25,369,246</u>		

See accompanying independent auditors' report.

## THE NAVAJO NATION

## Pension Required Supplementary Information

Year ended September 30, 2016

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

	2016	2015	2014	2013	2012	2011
Total pension liability:						
Service cost	\$ 13,297	12,939	14,222			
Interest	60,576	57,582	54,812			
Changes of benefit terms	—	302	5,300			
Differences between expected and actual experience	1,507	4,911	—			
Changes of assumptions	—	—	—			
Benefit payments, including refunds of member contributions	(34,170)	(31,180)	(28,415)			
Net change in total pension liability	41,210	44,554	45,919			
Total pension liability – beginning	882,172	837,618	791,699			
Total pension liability – ending (a)	923,382	882,172	837,618			
Plan fiduciary net position:						
Contributions – employer	46,473	49,975	47,750			
Contributions – member	—	—	—			
Net investment income	72,162	(6,703)	63,712			
Benefit payments, including refunds of member contributions	(34,170)	(31,179)	(28,415)			
Administrative expense	(1,092)	(1,157)	(1,114)			
Other	—	—	—			
Plan fiduciary net position – beginning	83,373	10,936	81,933			
Plan fiduciary net position – ending (b)	659,002	648,066	566,133			
Nation's net pension liability – ending (a) – (b)	742,375	659,002	648,066			
Plan fiduciary net position as a percentage of the total pension liability	181,007	223,170	189,552			
Covered-employee payroll	80.40%	74.70%	77.37%			
Nation's net position liability as a percentage of covered-employee payroll	171.504	168,042	179,682			
	\$ 105.54%	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: Based on a review of the plan performance the discount rate was changed from 8% to 7% for the fiscal year 2014 valuation.

See accompanying independent auditors' report.

## THE NAVAJO NATION

## Pension Required Supplementary Information

Year ended September 30, 2016

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
2016	42,590	46,473	(3,883)	171,504	27 %
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					

(Historical information prior to implementation of GASB 67 and 68 is not required)

## Notes to schedule:

Valuation date:

## Methods and assumptions used to determine contribution rates:

Actuarial cost method  
 Amortization method  
 Remaining amortization period  
 Asset valuation method

## Actuarial assumptions:

Inflation  
 Salary increases  
 Investment rate of return  
 Retirement age

## Mortality:

Healthy  
 Disabled

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

Entry age normal, level percent of pay  
 Straight line  
 20 years  
 Fair value

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.

1983 Group Annuity Mortality table (sex distinct)  
 1985 Pension Disability Mortality table (sex distinct)

See accompanying independent auditors' report.

## THE NAVAJO NATION

## Pension Required Supplementary Information

Year ended September 30, 2016

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

<u>Fiscal year ended</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
2016	11.15
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	

See accompanying independent auditors' report.

**THE NAVAJO NATION**  
Combining Balance Sheet – General Fund  
Modified Accrual Budget Basis  
September 30, 2018

	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 Trust Fund	Sihasin Fund	License Plate Revenue Fund	Total General Funds
<b>Assets</b>										
Cash and cash equivalents	\$ (88,586,342)	3,244,821	—	785,518	457,851	103,386	1,334,613	28,321,121	477,088	(53,861,944)
Investments (including \$5,441,210 of pledged securities)	236,089,888	2,332	—	—	—	16,071,843	—	500,703,026	—	752,867,069
Accounts receivable, net	1,180,611	—	—	—	—	—	—	—	—	1,180,611
Accrued interest receivable	1,572,371	5,232	—	594	—	15,513	—	1,223,861	—	2,817,561
Due from other funds	12,368,533	—	—	—	—	—	—	—	—	12,368,533
Restricted assets	515,323	—	—	—	—	—	—	—	—	515,323
<b>Total assets</b>	<b>\$ 163,140,364</b>	<b>3,252,385</b>	<b>—</b>	<b>786,102</b>	<b>457,851</b>	<b>16,190,742</b>	<b>1,334,613</b>	<b>530,248,008</b>	<b>477,088</b>	<b>715,887,153</b>
<b>Liabilities and Fund Balances</b>										
<b>Liabilities:</b>										
Accounts payable	\$ 6,957,753	—	—	—	—	295,982	—	242,496	—	7,496,233
Accrued liabilities	12,478,728	—	—	—	3,562	130,382	—	—	—	12,612,672
Unearned revenue	2,054,318	—	—	—	—	—	—	—	—	2,054,318
<b>Total liabilities</b>	<b>21,490,799</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,562</b>	<b>426,364</b>	<b>—</b>	<b>242,496</b>	<b>—</b>	<b>22,163,223</b>
<b>Fund balances:</b>										
Spendable:										
Restricted for:										
Restricted assets	515,323	—	—	—	—	—	—	—	—	515,323
Economic development loans	5,441,210	—	—	—	—	—	—	—	—	8,693,595
Other capital projects	1,500,000	3,252,385	—	—	—	—	—	—	—	1,500,000
Committed for:										
Other capital projects	21,056,827	—	—	—	—	15,764,378	—	530,005,510	—	566,826,715
Other purposes	17,964,333	—	—	786,102	454,289	—	1,334,613	—	477,088	21,016,425
Assigned to:										
Other purposes	12,228,328	—	—	—	—	—	—	—	—	12,228,328
Unassigned:										
General Fund	82,943,544	—	—	—	—	—	—	—	—	82,943,544
<b>Total fund balances</b>	<b>141,649,565</b>	<b>3,252,385</b>	<b>—</b>	<b>786,102</b>	<b>454,289</b>	<b>15,764,378</b>	<b>1,334,613</b>	<b>530,005,510</b>	<b>477,088</b>	<b>693,723,930</b>
<b>Total liabilities and fund balances</b>	<b>\$ 163,140,364</b>	<b>3,252,385</b>	<b>—</b>	<b>786,102</b>	<b>457,851</b>	<b>16,190,742</b>	<b>1,334,613</b>	<b>530,248,008</b>	<b>477,088</b>	<b>715,887,153</b>

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, 2016

Revenues	General Fund	Navajo Dam Escrow Fund	Navajo Rehabilitation Trust Fund	Oil and Gas Development Fund	Navajo Nation Reclamation Fund	Capital Outlay Hatch Fund	Historical Trust Asset Management Litigation Trust Fund	Shashin Fund	License Plate Revenue Fund	Total General Funds
Natural resource revenue:										
Oil and gas	\$ 20,656,515	—	—	—	—	—	—	—	—	20,656,515
Mining	49,509,811	—	—	—	—	—	—	—	—	49,509,811
Tax revenue, net	86,100,281	—	—	—	—	—	—	—	—	86,100,281
Land, buildings, business site, and right-of-way revenue	71,349,309	—	—	—	—	—	—	—	—	71,349,309
Interest and dividends	4,111,186	—	—	1,826	—	214,419	—	10,768,372	—	15,095,803
Net increase (decrease) in fair value of investments	(6,131)	—	—	—	—	—	—	32,066,992	—	32,060,861
Other revenue	4,900,228	—	—	—	166	—	—	—	38,573	4,938,867
Statutory allocation to permanent fund	(28,634,771)	—	—	—	—	—	—	—	—	(28,634,771)
Statutory allocation of current year revenues	(31,655,762)	—	—	—	—	—	—	—	—	(31,655,762)
Total revenues	176,330,666	—	—	1,826	166	214,419	—	42,835,364	38,573	221,421,014
Expenditures										
Current:										
General government	72,128,446	—	—	—	—	—	—	820,695	—	72,949,141
Economic development and planning	4,582,333	—	—	—	—	—	—	—	—	4,582,333
Community and rural development	36,562,734	4,785	—	—	—	—	—	—	—	36,567,519
Education and training	21,006,655	—	—	—	—	—	—	—	—	21,006,655
Natural resources	19,205,790	—	—	—	100,181	—	—	—	—	19,305,971
Public safety	9,373,493	—	—	—	—	—	—	—	—	9,373,493
Health and welfare	15,775,601	—	—	—	—	—	—	—	—	15,775,601
Culture and recreation	1,099,248	—	—	—	—	—	—	—	—	1,099,248
Capital outlay	4,633,235	—	—	—	43,418	332,980	—	—	—	5,009,633
Debt service - principal	900,849	—	—	—	—	—	—	—	—	900,849
Total expenditures	187,268,384	4,785	—	—	143,599	332,980	—	820,695	—	188,570,443
Excess (deficit) of revenues over expenditures	(8,937,718)	(4,785)	—	1,826	(143,433)	(118,561)	—	42,014,669	38,573	32,850,571
Other Financing Sources (Uses)										
Transfers										
Total other financing sources (uses)	34,306,964	—	(6,625,386)	—	—	2,000,000	—	—	—	29,681,578
Net change in fund balances (Exhibit E)	25,369,246	(4,785)	(6,625,386)	1,826	(143,433)	1,881,439	—	42,014,669	38,573	62,532,149
Fund balance, beginning of year	116,290,319	3,257,170	6,625,386	764,276	597,722	13,862,939	1,334,613	487,990,841	438,515	631,191,781
Fund balance, end of year	\$ 141,649,565	3,252,385	—	766,102	454,289	15,764,378	1,334,613	530,005,510	477,088	693,723,930

See accompanying independent auditors' report.

**THE NAVAJO NATION**  
Combining Balance Sheet  
Navajo Governmental Funds  
Modified Accrual Budget Basis  
September 30, 2018

		Special revenues										Debt Services			Permanent Government Building Fund	Total
		Scholarship Fund	Navajo Tribal Trust Fund	Navajo Environmental Agency Fund	Tax Services Fund	Water Pollution Control Fund	Navajo Nation Trust Fund	Land Acquisition Fund	Navajo Reservation Trust Fund	Gaming Revenue Distribution Fund	Public Safety Fund	DPS Operating Fund	Health Services Fund	Public Key Services Fund	RTUA Key Services Fund	
<b>Assets</b>	Cash and cash equivalents	8,033,578	5,567,889	55,733,891	(4,597,047)	7,376,879	3,264,210	11,414,368	4,863,894	8,868,397	(45,854,891)	2,098,691	1,727,890	5,528,566	(71,890)	72,888,307
	Investments	53,986,828	33,292	—	8,522,952	4,081,182	27,164,228	115,981,650	79,363	—	61,468,503	—	—	—	—	328,836,483
	Accounts receivable	—	—	—	—	15,000	—	—	—	—	—	—	—	—	—	136,445
	Prepaid expenses and receivables	187,248	3,626	6,761	20,314	3,257	26,302	37,850,058	3,534,539	—	123,824	—	—	—	—	1,940,788
<b>Liabilities and Fund Balance</b>	Total liabilities	5,548,536	37,218	6,761	—	—	26,302	37,850,058	3,534,539	—	123,824	—	—	—	—	59,889,542
	Total assets	8,674,142	5,629,207	55,740,382	4,338,018	11,456,117	30,486,547	182,400,146	8,481,401	8,868,397	15,087,666	2,098,691	1,727,890	5,528,566	1,185,010	455,528,307
<b>Liabilities and Fund Balance</b>	Accounts payable and accrued expenses	2,035,128	18,223	223,711	742,241	478,885	1,753,073	88,872	14,422	720,850	7,479,519	18,902	—	149,415	—	13,813,726
	Total liabilities	2,035,128	18,223	223,711	742,241	478,885	1,753,073	88,872	14,422	720,850	7,479,519	18,902	—	149,415	—	13,813,726
	Fund balance:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Nonexpendable:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Other purposes</b>	Permanent fund principal	5,182,888	—	—	—	—	—	—	3,534,539	—	—	—	—	—	1,185,010	58,171,726
	Long-term receivables	—	—	—	—	—	—	—	—	—	—	—	—	—	—	58,791,420
	Restricted for:	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Education	60,192,845	—	—	—	—	—	—	—	—	—	—	—	—	—	60,192,845
<b>Other purposes</b>	Capital projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Capital projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Other capital projects	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	Other purposes	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
<b>Total fund balance</b>	Total fund balance	55,575,913	5,808,984	55,518,851	3,593,778	10,877,452	28,732,174	182,292,214	8,481,401	8,145,747	8,188,147	3,078,899	1,727,890	8,383,181	1,185,010	441,714,666
	Total liabilities and fund balance	8,674,142	5,629,207	55,740,382	4,338,018	11,456,117	30,486,547	182,400,146	8,481,401	8,868,397	15,087,666	2,098,691	1,727,890	5,528,566	1,185,010	455,528,307

See accompanying independent auditor's report.

**THE NAVAJO NATION**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances**  
 Nonmajor Governmental Funds  
 Modified Accrual Budget Basis  
 Year ended September 30, 2016

	Special revenue										Debt Service		Chapter Government Nation Building Fund			
	Scholarship Fund	Navajo Nation Environmental Agency Fund	Tax Surveys Fund	Water Pollution Control Fund	Navajo Nation Recreation Trust Fund	Land Acquisition Fund	Navajo Recreation Trust Fund	Gaming Development Fund	Gaming Revenue Distribution Fund	Judicial Public Safety Fund	DPS Gaming Fund	Healthy Drinking Water Act		FMS Key Bank Loan Fund	NTUA Key Bank Loan Fund	
<b>Revenues</b>																
Tax revenue	—	1,453,210	2,251,204	—	8,792,362	—	—	—	—	—	—	1,773,018	—	—	14,275,794	
Lands, buildings, business, etc. and right-of-way revenue	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,160,662	
Interest and dividends	1,652,362	15,980	372,798	21,118	83,172	5,367,479	360,200	—	—	194,179	—	—	—	2,104,967	10,008,294	
Proceeds from sale of assets	2,935,466	—	—	—	—	6,593,005	—	—	—	—	—	—	—	2,134,995	11,653,196	
Other revenue	744,403	1,364	2,079,211	851,579	18,195	80,526	11,068	8,640,780	2,003,569	6,204,072	840,000	13,362	—	—	15,284,077	
Statutory allocation to permanent fund	—	(178,679)	—	—	(1,076,374)	—	—	—	(240,428)	—	—	(217,104)	—	—	(1,712,585)	
State and federal grants and current state revenues	5,186,736	—	2,624,002	872,697	(538,187)	5,235,853	—	8,640,780	(120,214)	10,373,472	840,000	198,552	—	—	20,020,208	
<b>Total revenues</b>	10,328,867	1,286,895	2,624,002	872,697	7,279,168	17,268,883	2,537,993	8,640,780	1,642,927	10,567,651	168,380	1,460,724	—	—	71,698,636	
<b>Expenditures</b>																
General government	—	—	4,108,181	—	—	—	—	8,621,478	—	—	—	—	725,815	—	13,455,474	
Economic and development	—	—	—	—	—	—	251,055	—	—	—	—	—	—	—	251,055	
Community and rural development	—	—	—	2,739,759	—	410,226	—	—	278,525	—	—	—	—	2,020,915	5,448,425	
Education and training	6,886,597	—	—	—	—	—	—	—	—	—	—	—	—	—	9,626,356	
Health services	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,488,819	
Public safety	—	—	—	—	—	—	—	—	—	8,204,072	166,360	—	—	—	6,370,452	
Culture and recreation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,962,108	
Transportation	—	—	—	—	—	—	—	—	—	—	—	—	—	—	2,830,969	
Capital outlay	—	—	—	—	—	183,010	—	444,702	—	19,044,125	—	—	—	—	19,227,045	
Cost of service - principal	—	—	—	—	—	—	—	—	—	2,510,000	—	—	—	—	2,510,000	
Cost of service - interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Debt service - principal	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
Debt service - interest	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	
<b>Total expenditures</b>	6,886,597	1,882,138	4,108,181	2,739,759	8,403,646	513,326	596,357	8,641,386	278,525	27,858,197	168,380	198,552	725,815	880,176	67,450,097	
<b>Excess (deficiency) of revenues over expenditures</b>	3,442,070	(595,113)	(1,484,179)	(1,867,062)	(1,124,478)	16,693,727	1,941,593	(606)	1,364,402	(17,290,546)	673,620	1,460,724	(725,815)	(880,176)	2,218,147	
<b>Other financing sources (uses)</b>																
Proceeds from sale of bonds	—	—	—	—	—	—	—	—	—	52,900,000	—	—	—	—	52,900,000	
Premium on sale of bonds	—	—	—	—	—	—	—	—	—	(52,900,000)	—	—	—	—	(52,900,000)	
Refunding of debt payable	—	—	—	—	—	—	—	—	—	(53,290,302)	—	—	—	—	(53,290,302)	
Transfers	—	—	(13,000,000)	2,000,000	—	—	6,625,306	—	—	—	—	—	—	—	(4,374,694)	
<b>Total other financing sources (uses)</b>	—	—	(13,000,000)	2,000,000	—	—	6,625,306	—	—	2,165,158	—	—	—	—	(2,209,456)	
<b>Net change in fund balance</b>	3,442,070	(695,113)	(1,484,179)	132,938	(1,124,478)	16,693,727	8,466,979	(606)	1,364,402	(15,125,388)	673,620	1,460,724	(725,815)	(880,176)	2,218,147	
<b>Fund balance, beginning of year</b>	61,533,843	6,294,097	18,077,957	10,844,514	29,856,652	145,658,547	—	8,146,353	2,445,600	23,313,535	1,406,789	257,266	6,107,966	2,045,186	68,333,248	
<b>Fund balance, end of year</b>	\$ 65,375,913	\$ 6,008,984	\$ 3,593,778	\$ 10,977,452	\$ 28,732,174	\$ 162,357,274	\$ 8,466,979	\$ 8,145,747	\$ 3,810,002	\$ 8,188,147	\$ 2,079,889	\$ 1,727,990	\$ 5,382,181	\$ 1,165,010	\$ 70,551,395	

See accompanying independent auditors' report.

**THE NAVAJO NATION**  
Combining Statement of Net Position  
Enterprise Funds  
Modified Accrual Budget Basis  
September 30, 2016

	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
<b>Assets and Deferred Outflow of Resources</b>													
Current assets:													
Cash and cash equivalents	\$ 18,697,524	4,517,228	746,299	(2,091,101)	25,821,888	1,890,758	124,761	227,456	441,195	(94,538)	800,005	1,081,382	52,154,857
Investments	3,097,392	5,119,166	—	—	—	—	—	—	—	—	—	—	8,616,578
Receivables:													
Accounts receivable	1,267	4,976	—	—	—	—	—	—	—	—	—	—	6,243
Accounts receivable	13,650	—	—	—	—	—	—	—	7,486	—	25,000	—	46,136
Current portion of notes receivable	93,656	1,627,695	—	—	—	—	—	—	—	—	—	—	1,721,351
Total receivables	106,913	1,632,671	—	—	—	—	—	—	7,486	—	25,000	—	1,733,730
Total current assets	22,483,479	11,269,065	746,299	(2,091,101)	25,821,888	1,890,758	124,761	227,456	448,681	(94,538)	825,005	1,081,382	62,745,165
Noncurrent assets:													
Receivables:													
Notes receivable, net	329,874	6,842,164	—	—	—	—	—	—	—	—	—	—	6,972,038
Total noncurrent assets	329,874	6,842,164	—	—	—	—	—	—	—	—	—	—	6,972,038
Capital assets:													
Construction in progress	3,164,608	—	—	—	—	—	—	—	—	—	—	—	3,164,608
Land and land development costs	789,419	—	—	—	—	—	—	—	—	—	—	—	789,419
Buildings	13,407,874	—	2,544,119	—	6,858,492	93,372	—	—	—	—	—	—	22,803,957
Equipment	108,194	—	40,508	—	980,028	87,780	—	113,484	81,910	—	—	274,604	1,776,478
Total capital assets	17,510,163	—	2,584,627	—	7,838,520	181,152	—	113,484	81,910	—	—	274,604	28,584,460
Accumulated depreciation	5,892,578	—	2,584,627	—	1,345,473	87,780	—	113,484	34,358	—	—	231,888	10,280,296
Total noncurrent assets	11,617,585	—	—	—	6,493,047	93,372	—	—	47,552	—	—	42,006	18,294,164
Capital assets, net	11,847,461	—	—	—	6,493,047	93,372	—	—	—	—	—	—	25,268,202
Total assets	34,449,925	17,911,259	746,299	(2,091,101)	32,314,935	1,984,130	124,761	227,456	488,233	(94,538)	825,005	1,123,988	88,011,367
Pension related outflows	8,985	70,792	63,484	—	325,157	102,271	—	—	—	—	—	43,355	845,273
Total deferred outflow of resources	8,985	70,792	63,484	—	325,157	102,271	—	—	—	—	—	43,355	845,273
Total assets and deferred outflows	\$ 34,449,925	17,982,021	811,783	(2,091,101)	32,640,092	2,086,401	124,761	227,456	488,233	(94,538)	825,005	1,167,343	88,856,640
<b>Liabilities, Deferred Inflow of Resources and Net Position</b>													
Current liabilities:													
Accounts payable	\$ 356,261	238,820	62,895	—	48,832	185,625	—	—	755	5,244	21,180	807	920,519
Current portion of compensated absences	5,486	16,611	26,808	—	66,739	15,508	—	—	—	—	8,673	21,111	191,034
Accrued liabilities	267,541	127,104	36,424	—	179,223	38,173	—	—	—	24,604	73,850	69,268	816,188
Total current liabilities	629,288	362,535	125,927	—	324,894	239,304	—	—	755	29,848	104,003	91,187	1,927,741
Noncurrent liabilities:													
Net pension liability	48,155	378,455	339,531	—	1,739,038	546,978	—	—	—	—	187,182	231,878	3,451,215
Total noncurrent liabilities	48,155	378,455	339,531	—	1,739,038	546,978	—	—	—	—	187,182	231,878	3,451,215
Total liabilities	677,443	760,990	465,458	—	2,063,932	786,282	—	—	755	29,848	271,185	323,063	5,378,956
Pension related inflows	5,447	42,898	38,486	—	187,119	62,000	—	—	—	—	18,950	26,283	391,183
Total deferred inflows of resources	5,447	42,898	38,486	—	187,119	62,000	—	—	—	—	18,950	26,283	391,183
Net position:													
Net investment in capital assets	11,617,587	—	—	—	6,493,047	93,372	—	—	—	—	—	—	18,294,164
Unrestricted	22,149,448	17,178,133	307,839	(2,091,101)	23,885,994	1,144,747	124,761	227,456	447,626	(124,386)	586,129	775,391	64,592,337
Total net position	33,767,035	17,178,133	307,839	(2,091,101)	30,379,041	1,238,119	124,761	227,456	495,478	(124,386)	586,129	817,987	82,886,501
Total liabilities and total deferred inflows and net position	\$ 34,449,925	17,982,021	811,783	(2,091,101)	32,640,092	2,086,401	124,761	227,456	496,233	(94,538)	825,005	1,167,343	88,856,640

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, 2016

	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
<b>Operating revenues:</b>													
Rental income	\$ 1,621,385	—	925,715	—	46,630	—	—	—	—	—	7,675	—	2,601,405
Interest income - notes receivable	2,185	703,612	—	—	—	—	—	—	—	—	—	—	733,375
Charges for services	3,243	127,267	—	—	13,560,349	710,417	2,576	61,822	—	—	1,001,224	440,130	15,907,048
Other income	—	—	1,538	46,675	56,600	—	—	20,368	68,375	144,995	—	21,550	360,119
<b>Total operating revenues</b>	<b>1,654,391</b>	<b>830,869</b>	<b>927,253</b>	<b>46,675</b>	<b>13,663,579</b>	<b>710,417</b>	<b>2,576</b>	<b>82,208</b>	<b>68,375</b>	<b>144,995</b>	<b>1,008,899</b>	<b>461,680</b>	<b>19,601,947</b>
<b>Operating expenses:</b>													
Personnel	67,135	476,641	476,451	—	2,808,028	779,091	—	—	—	—	248,798	343,827	5,198,971
Travel, per diem, and vehicle	2,185	50,468	47,716	—	336,682	263,354	—	2,504	5,375	2,538	26,690	34,690	802,122
Supplies	57,178	67,636	78,664	—	228,669	217,607	—	3,441	30,222	4,830	50,542	17,337	776,326
Contractual service	50,248	—	—	—	562,991	222,168	—	—	—	285,104	1,040,197	—	2,170,308
Lease, telephone, and utilities	10,553	6,702	40,840	—	179,250	18,058	—	817	—	13,128	65,678	154,743	487,767
Repairs and maintenance	139,820	16,323	226,059	—	123,562	9,136	—	—	30,306	999	31,654	24,385	608,786
Promotion (recovery) for bad debts	48,985	(23,534)	—	—	—	—	—	—	—	—	—	(114,386)	(60,032)
Depreciation expense	308,432	—	—	10,912	108,073	37,620	—	87,272	24,307	—	—	3,654	508,286
Reinsurance premiums	2,998,415	3,731	3,098	—	17,246	5,363	—	—	—	—	1,160	1,955	32,955
Direct investment expense	—	—	—	—	—	—	—	—	—	—	—	—	—
Other expense	21,321	32,544	28,053	—	55,831	11,321	1,500	5,217	19,110	22,519	1,435	48,420	245,071
<b>Total operating expenses</b>	<b>3,700,903</b>	<b>650,511</b>	<b>898,681</b>	<b>17,422</b>	<b>4,417,754</b>	<b>1,591,920</b>	<b>1,500</b>	<b>109,251</b>	<b>109,320</b>	<b>339,118</b>	<b>1,466,062</b>	<b>516,731</b>	<b>13,819,372</b>
<b>Operating income (loss), net</b>	<b>(2,046,512)</b>	<b>180,358</b>	<b>28,372</b>	<b>29,253</b>	<b>9,245,825</b>	<b>(881,503)</b>	<b>1,076</b>	<b>(27,043)</b>	<b>(40,945)</b>	<b>(184,123)</b>	<b>(457,163)</b>	<b>(55,051)</b>	<b>5,782,574</b>
<b>Nonoperating revenues:</b>													
Interest and dividends	16,757	16,879	—	—	—	—	—	—	—	—	—	—	33,636
Satutory allocations	5,188,796	—	—	—	—	—	—	—	—	—	—	—	5,188,796
<b>Total nonoperating revenues</b>	<b>5,205,493</b>	<b>16,879</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5,220,372</b>
<b>Nonoperating income, net</b>	<b>3,158,981</b>	<b>16,879</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>5,220,372</b>
<b>Excess (deficiency) of revenues over expenses</b>	<b>1,067,469</b>	<b>197,267</b>	<b>28,372</b>	<b>29,253</b>	<b>9,245,825</b>	<b>(881,503)</b>	<b>1,076</b>	<b>(27,043)</b>	<b>(40,945)</b>	<b>(184,123)</b>	<b>(457,163)</b>	<b>(55,051)</b>	<b>11,002,946</b>
<b>Transfers</b>													
Change in net position	3,156,981	197,267	28,372	29,253	(468,566)	867,052	—	12,355	—	—	466,566	—	880,168
Net position, beginning of year	30,610,054	16,980,866	278,706	(2,120,354)	21,598,782	1,252,570	123,685	242,144	538,423	69,737	566,726	873,048	71,003,387
<b>Net position, end of year</b>	<b>\$ 33,767,035</b>	<b>\$ 17,178,133</b>	<b>\$ 307,078</b>	<b>\$ (2,091,101)</b>	<b>\$ 30,379,041</b>	<b>\$ 1,238,119</b>	<b>\$ 124,761</b>	<b>\$ 227,456</b>	<b>\$ 495,478</b>	<b>\$ (124,386)</b>	<b>\$ 566,726</b>	<b>\$ 817,957</b>	<b>\$ 72,886,501</b>

See accompanying independent auditors' report.



**THE NAVAJO NATION**  
Combining Statement of Cash Flows  
Enterprise Funds  
Modified Accrual Budget Basis  
Year ended September 30, 2016

	Business and Industrial Development Fund	Loan Fund	Employee Housing	Archaeology Services	Parks and Recreation	Fish and Wildlife	Navajo Nation Code Fund	Navajo Treasury Fund	Livestock Custody Fund	Fourth Coke Fund	Annual Navajo Nation Fall Fund	Total
Cash flows from operating activities:												
Receipts from customers	\$ 1,753,168	1,795,231	925,715	—	13,006,979	710,417	2,576	81,822	—	—	1,008,869	20,271,937
Reimbursements	—	70,112	—	—	—	—	—	—	—	—	—	70,112
Payments to employees for services	(657,189)	(545,814)	(445,814)	(46,675)	(2,444,138)	(761,855)	—	(1,183)	—	(1,340)	(228,824)	(4,890,326)
Payments to suppliers	(57,178)	(87,830)	(78,864)	—	(229,609)	(217,807)	—	(3,441)	(30,222)	(4,830)	(778,325)	(1,357,377)
Payments to third parties for services	83,045	(3,057)	(310,548)	(6,510)	(1,243,514)	(327,510)	—	(3,321)	(38,811)	(312,507)	(1,164,859)	(3,484,327)
Other receipts (payments)	220,468	20,215	(41,841)	90,533	45,946	(11,321)	(1,500)	15,389	49,263	122,478	—	131,283
Net cash from operating activities	1,965,587	1,852,751	8,848	7,348	9,732,604	(608,076)	1,076	89,036	(17,683)	(186,201)	(435,126)	12,467,980
Cash flows from capital and related financing activity:												
(Acquisition) of capital assets	(4,482,901)	—	—	—	(786,989)	(83,372)	—	—	(9,880)	—	—	(5,353,222)
Net cash from capital and related financing activity	(4,482,901)	—	—	—	(786,989)	(83,372)	—	—	(9,880)	—	—	(5,353,222)
Cash flows from non-capital and related financing activity:												
Transfer	—	—	781	—	(466,566)	867,052	—	12,355	—	—	466,566	866,168
Statutory allocations	5,186,736	—	—	—	—	—	—	—	—	—	—	5,186,736
Net cash from non-capital and related financing activity	5,186,736	—	781	—	(466,566)	867,052	—	12,355	—	—	466,566	6,096,904
Cash flows from investing activities:												
Purchases of investments	(6,611,318)	(8,078,818)	—	—	—	—	—	—	—	—	—	(13,488,136)
Capital expenditures	8,153,825	2,153,825	—	—	—	—	—	—	—	—	—	10,307,650
Interest on investment and cash balances	17,214	1,340	—	—	—	—	—	—	—	—	—	28,754
Net cash from investing activities	1,549,440	(4,026,779)	—	—	—	—	—	—	—	—	—	(2,477,339)
Net increase (decrease) in cash and cash equivalents	4,219,862	(2,174,023)	8,609	7,348	8,498,069	165,604	1,076	81,381	(27,648)	(186,201)	31,440	10,704,326
Cash and cash equivalents, beginning of year	14,467,662	6,681,253	738,980	(2,088,448)	17,322,818	1,725,154	123,685	146,085	469,843	101,883	788,565	994,381
Cash and cash equivalents, end of year	\$ 18,687,524	\$ 4,517,230	\$ 747,589	\$ (2,091,101)	\$ 25,820,887	\$ 1,890,758	\$ 124,761	\$ 227,466	\$ 441,195	\$ (84,318)	\$ 800,005	\$ 21,459,531
Reconciliation of operating income (loss) to net cash from operating activities:												
Operating income (loss)	\$ (2,046,512)	180,388	28,372	29,253	9,245,825	(881,503)	1,076	(27,043)	(40,845)	(184,123)	(457,163)	5,782,574
Adjustments to reconcile operating income to net cash from operating activities:												
Depreciation expense	306,452	—	—	—	106,073	37,620	—	97,272	24,307	—	—	577,464
Provision (recovery) for bad debts	46,888	(23,534)	—	10,812	—	—	—	—	—	—	—	(60,032)
Decrease in accounts receivable	—	1,837,944	—	13,859	—	—	—	—	—	—	—	1,768,484
Decrease in notes receivable	2,928,615	—	—	—	—	—	—	—	—	—	—	2,928,615
Decrease in other assets	—	38,626	18,425	—	(1,166)	28,105	—	303	—	341	5,298	34,741
(Increase) decrease in deferred outflows	2,627	(105,481)	(105,481)	—	(20,181)	218,181	—	(738)	(1,230)	(738)	1,863	1,011,265
Decrease in prepaid expenses	588	(38,826)	(38,826)	—	—	—	—	—	—	—	—	(38,826)
Increase (decrease) in net pension liability	(9,134)	(138,043)	(62,800)	—	140,554	(88,373)	—	(1,496)	(1,230)	(1,881)	(13,015)	(191,408)
Increase (decrease) in compensated absences	5,486	(7,757)	(3,271)	(48,675)	23,373	15,508	—	—	—	—	8,873	16,743
Increase in deferred inflows	5,447	42,888	38,489	—	187,119	62,000	—	—	—	—	18,950	331,153
Total adjustments	4,015,099	1,874,363	(19,524)	(21,865)	486,779	273,427	—	96,079	23,077	(2,078)	22,037	6,685,408
Net cash from operating activities	\$ 1,965,587	\$ 1,852,751	\$ 8,848	\$ 7,348	\$ 9,732,604	\$ (608,076)	\$ 1,076	\$ 89,036	\$ (17,683)	\$ (186,201)	\$ (435,126)	\$ 12,467,980

See accompanying independent auditors' report.

**THE NAVAJO NATION**  
Combining Statement of Net Position  
Internal Service Funds  
Modified Accrual Budget Basis  
September 30, 2016

## Assets and Deferred Outflow of Resources

	Fleet Management	Duplicating Services	Office Supply Center	Air Transportation	Group Health Self-Insurance Fund	Property and Casualty Self-Insurance Fund	Workers' Compensation Insurance Fund	Contingency Management Fund	Total
<b>Current assets:</b>									
Cash and cash equivalents	\$ 23,172,370	1,644,050	788,089	(2,988,130)	506,637	(448,838)	2,811,780	4,690,944	30,176,902
Investments	—	—	—	—	—	28,199,401	12,304,683	—	40,504,084
Receivables:									
Accrued interest receivable, net	—	—	—	—	—	32,111	51,366	—	83,477
Accounts receivable	—	3,598	279,800	—	562,884	—	118,913	200	865,395
Total receivables	—	3,598	279,800	—	562,884	32,111	170,279	200	1,048,872
Total current assets	23,172,370	1,647,648	1,067,889	(2,988,130)	1,069,521	27,782,674	15,286,742	4,691,144	71,729,858
<b>Noncurrent assets:</b>									
Capital assets:									
Buildings	51,828	—	—	—	—	—	—	—	51,828
Vehicles	42,090,757	—	—	—	—	—	—	—	42,090,757
Equipment	900,237	439,723	3,351	5,375,543	—	236,101	86,462	—	7,041,417
Total capital assets	43,042,822	439,723	3,351	5,375,543	—	236,101	86,462	—	49,184,002
Accumulated depreciation	35,497,030	427,536	3,351	3,665,731	—	102,965	50,572	—	39,747,185
Capital assets, net	7,545,792	12,187	—	1,709,812	—	133,136	35,890	—	9,436,817
Total noncurrent assets	7,545,792	12,187	—	1,709,812	—	133,136	35,890	—	9,436,817
Total assets	30,718,162	1,659,835	1,067,889	(1,278,318)	1,069,521	27,915,810	15,322,632	4,691,144	81,166,675
<b>Pension-related outflows</b>									
Total deferred outflows of resources	428,179	28,298	13,798	65,020	61,041	101,311	53,970	—	751,617
Total assets and deferred outflows	428,179	28,298	13,798	65,020	61,041	101,311	53,970	—	751,617
Total assets and deferred outflows	\$ 31,146,341	1,688,133	1,081,687	(1,213,298)	1,130,562	28,017,121	15,376,602	4,691,144	81,918,292

## Liabilities, Deferred Inflow of Resources and Net Position

<b>Current liabilities:</b>									
Accounts payable	\$ 128,843	2,811	—	—	201,499	105,694	12,813	—	451,650
Current portion of compensated absences	181,253	9,400	8,719	—	10,801	45,379	11,917	—	267,669
Current estimated claims payable	—	—	—	—	8,700,000	1,862,485	303,514	—	10,866,000
Accrued liabilities	1,124,179	—	22,395	—	1,547,877	49,992	24,037	—	2,768,090
Total current liabilities	1,434,275	12,211	31,114	—	10,450,177	2,063,151	352,381	—	14,373,309
<b>Noncurrent liabilities:</b>									
Estimated claims payable	—	—	—	—	—	—	—	992,542	992,542
Net pension liability	2,290,035	151,345	73,798	347,746	326,467	541,835	288,646	—	4,019,874
Total noncurrent liabilities	2,290,035	151,345	73,798	347,746	326,467	541,835	288,646	992,542	5,012,416
Total liabilities	3,724,310	163,556	104,912	347,746	10,786,644	2,604,986	641,027	992,542	19,385,725
<b>Pension-related inflows</b>									
Total deferred inflows of resources	259,575	17,155	8,365	39,417	37,005	61,417	32,718	—	455,652
Total deferred inflows of resources	259,575	17,155	8,365	39,417	37,005	61,417	32,718	—	455,652
<b>Net position:</b>									
Net investment in capital assets	7,545,792	12,187	—	1,709,812	—	133,136	35,890	—	9,436,817
Restricted, expendable for claims and judgments	19,616,664	1,495,235	968,410	(3,310,275)	(9,693,087)	25,197,582	14,666,967	—	30,171,462
Unrestricted	27,152,456	1,507,422	968,410	(1,600,463)	(9,693,087)	25,330,718	14,702,857	3,698,602	22,469,536
Total net position	54,314,912	3,114,844	1,936,820	(3,510,936)	(18,385,174)	50,661,436	30,102,714	3,698,602	82,638,515
Total liabilities, deferred inflows and net position	\$ 31,146,341	1,688,133	1,081,687	(1,213,298)	1,130,562	28,017,121	15,376,602	4,691,144	81,918,292

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, 2016

	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
<b>Operating revenues:</b>									
Insurance premium income	\$ —	—	—	—	37,627,394	10,406,075	2,328,679	—	50,362,148
Charges for services	12,185,533	1,076,605	525,847	978,536	—	—	—	—	14,766,521
Other income	107,841	—	—	—	—	64	1,575	—	109,480
<b>Total operating revenues</b>	<b>12,293,374</b>	<b>1,076,605</b>	<b>525,847</b>	<b>978,536</b>	<b>37,627,394</b>	<b>10,406,139</b>	<b>2,330,254</b>	<b>—</b>	<b>65,238,149</b>
<b>Operating expenditures:</b>									
Personnel	3,223,985	209,844	79,665	774,404	429,402	786,340	450,746	—	5,954,386
Travel, per diem, and vehicle	194,641	15,723	7,708	41,060	48,082	113,156	62,494	—	482,864
Supplies	4,471,669	54,889	381,546	207,964	15,595	70,400	57,923	—	5,259,986
Contractual service	101,224	—	—	—	5,017,053	782,587	66,777	—	5,947,641
Lease, telephone, and utilities	29,629	273,094	3,843	4,033	6,037	81,515	28,565	—	426,716
Repairs and maintenance	201,580	122,080	217	222,926	—	14,955	11,153	—	572,911
Provision (recovery) for bad debts	—	—	—	—	(445,146)	(201,753)	1,100	—	(645,799)
Depreciation expense	1,688,758	19,286	120	95,333	33,788,129	31,579	8,972	—	1,844,048
Benefits and claims	—	—	—	—	3,903,871	1,649,744	1,609,264	(4,046,708)	33,000,429
Reinsurance premiums	14,574	1,310	774	3,251	3,950,947	3,950,947	2,770	—	7,877,497
Other expense	186,435	5,413	4,465	33,585	26,625	51,496	33,286	—	341,305
<b>Total operating expenditures</b>	<b>10,112,495</b>	<b>701,639</b>	<b>478,338</b>	<b>1,382,556</b>	<b>42,789,648</b>	<b>7,310,966</b>	<b>2,333,050</b>	<b>(4,046,708)</b>	<b>61,061,984</b>
<b>Net operating income (loss)</b>	<b>2,180,879</b>	<b>374,966</b>	<b>47,509</b>	<b>(404,020)</b>	<b>(5,162,254)</b>	<b>3,095,173</b>	<b>(2,796)</b>	<b>4,046,708</b>	<b>4,176,165</b>
<b>Nonoperating revenues:</b>									
Interest and dividends	—	—	—	—	—	77,299	307,699	—	384,998
Net increase in fair value of investments	—	—	—	—	—	—	768,319	—	768,319
<b>Total nonoperating revenues</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>77,299</b>	<b>1,076,018</b>	<b>—</b>	<b>1,153,317</b>
<b>Net nonoperating income</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>77,299</b>	<b>1,076,018</b>	<b>—</b>	<b>1,153,317</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>2,180,879</b>	<b>374,966</b>	<b>47,509</b>	<b>(404,020)</b>	<b>(5,162,254)</b>	<b>3,172,472</b>	<b>1,073,222</b>	<b>4,046,708</b>	<b>5,329,482</b>
<b>Transfers</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>571,974</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(2,348,106)</b>	<b>(1,776,132)</b>
<b>Change in net position</b>	<b>2,180,879</b>	<b>374,966</b>	<b>47,509</b>	<b>167,954</b>	<b>(5,162,254)</b>	<b>3,172,472</b>	<b>1,073,222</b>	<b>1,698,602</b>	<b>3,553,350</b>
<b>Net position, beginning of year</b>	<b>24,981,577</b>	<b>1,132,456</b>	<b>920,901</b>	<b>(1,768,417)</b>	<b>(4,530,833)</b>	<b>22,158,246</b>	<b>13,629,635</b>	<b>2,000,000</b>	<b>58,523,565</b>
<b>Net position, end of year</b>	<b>\$ 27,162,456</b>	<b>1,507,422</b>	<b>968,410</b>	<b>(1,600,463)</b>	<b>(9,693,087)</b>	<b>25,330,718</b>	<b>14,702,857</b>	<b>3,698,602</b>	<b>62,076,915</b>

See accompanying independent auditors' report.

**THE NAVAJO NATION**  
Combining Statement of Cash Flows  
Internal Service Funds  
Modified Accrual Budget Basis  
Year ended September 30, 2016

	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	\$ 12,185,533	1,073,007	520,732	978,536	—	—	—	—	14,757,808
Cash received for premiums from the government	—	—	—	—	23,011,245	3,800,000	1,145,085	—	27,956,310
Cash received from others for premiums	—	—	—	—	15,689,630	6,812,349	1,081,209	—	23,563,188
Payments to employees for services	(3,257,493)	(215,173)	(101,961)	(494,217)	(467,594)	(757,880)	(414,404)	—	(5,708,742)
Payment of claims	—	—	—	—	(31,468,129)	(1,490,972)	(1,728,592)	(479,158)	(35,166,851)
Payments to suppliers	(4,471,969)	(54,889)	(381,546)	(207,964)	(15,595)	(70,400)	(57,923)	—	(5,259,988)
Payments to third parties for services	(735,989)	(419,926)	(17,007)	(304,855)	(8,311,712)	(4,918,264)	(174,134)	—	(14,881,887)
Other receipts (payments)	959,642	—	22,395	—	—	(108,008)	(23,790)	—	850,239
Net cash from operating activities	4,690,024	383,019	42,593	(28,500)	(1,582,155)	3,286,825	(172,569)	(479,158)	6,110,079
Cash flows from capital and related financing activity:									
Acquisition of capital assets	(6,298,838)	—	—	—	—	(9,573)	—	—	(8,308,411)
Net cash from capital and related financing activity	(6,298,838)	—	—	—	—	(9,573)	—	—	(6,308,411)
Cash flows from noncapital and related financing activity:									
Transfer	—	—	—	571,874	—	—	—	(2,348,106)	(1,776,132)
Net cash from noncapital and related financing activity	—	—	—	571,874	—	—	—	(2,348,106)	(1,776,132)
Cash flows from investing activities:									
Purchases of investments	—	—	—	—	—	(56,890,846)	(3,173,322)	—	(60,064,168)
Sale of investments	28,633	—	8,259	—	—	53,477,151	5,254,611	—	58,731,762
Interest on investment and cash balances	—	—	—	—	—	49,850	315,940	—	402,692
Net cash from investing activities:	28,633	—	8,259	—	—	(3,363,845)	2,397,229	—	(829,724)
Cash and cash equivalents, beginning of year	(1,590,181)	383,019	50,852	543,474	(1,582,155)	(106,593)	2,224,660	(2,827,264)	(2,904,188)
Net increase (decrease) in cash and cash equivalents	24,762,551	1,261,031	737,237	(3,531,604)	2,089,792	(342,245)	587,120	7,518,208	33,081,090
Cash and cash equivalents, end of year	23,172,370	1,644,050	788,089	(2,988,130)	508,637	(448,838)	2,811,780	4,690,944	30,176,902
Reconciliation of operating income (loss) to net cash from operating activities:									
Operating income (loss)	\$ 2,180,879	374,866	47,509	(404,020)	(5,182,254)	3,095,173	(2,796)	4,046,708	4,176,165
Adjustments to reconcile operating income (loss) to net cash from operating activities:									
Depreciation expense	1,688,758	19,286	120	95,333	—	31,579	8,972	—	1,844,048
Provision (recovery) for bad debts	—	(3,599)	(5,115)	—	(445,146)	(201,753)	1,100	—	(645,799)
Decrease (increase) in accounts receivable	—	—	(5,115)	—	1,053,481	206,210	(102,405)	—	1,148,573
Decrease (increase) in deferred outflows	118,913	8,992	9,992	(54,354)	24,832	22,152	3,705	—	133,718
Increase (decrease) in accounts payable	843,895	(2,306)	22,395	—	689,956	(51,818)	5,548	—	1,507,870
Increase (decrease) in compensated absences	(2,911)	(83)	2,901	—	(3,621)	12,173	(4,182)	—	4,277
Increase (decrease) in net pension liability	(409,065)	(31,079)	(43,574)	295,124	(96,208)	(67,282)	4,101	—	(348,003)
Increase in deferred inflows	259,575	17,155	8,365	39,417	37,005	61,417	32,718	—	455,652
Increase (decrease) in estimated claims payable	—	—	—	—	2,320,000	158,772	(119,328)	(4,525,866)	(2,166,422)
Total adjustments	2,499,145	8,053	(4,816)	375,520	3,580,099	171,652	(169,773)	(4,525,866)	1,933,914
Net cash from operating activities	\$ 4,690,024	383,019	42,593	(28,500)	(1,582,155)	3,286,825	(172,569)	(479,158)	6,110,079

See accompanying independent auditors' report.





**THE NAVAJO NATION**  
Combining Statement of Changes in Fiduciary Net Position  
Fiduciary Funds  
Modified Accrual Budget Basis  
September 30, 2016

	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 Bennett Trust Fund	
<b>Additions</b>														
Interest and dividends	\$ 18,655,226	45,069	1,007,430	19,707,725	345,748	307,158	323,414	959	686	35,335	75,965	2,638,269	1,460	23,438,749
Net increase in fair value of investments	56,603,807	99,568	6,065,968	62,670,341	617,136	566,911	558,943	—	—	—	—	6,526,871	—	70,938,202
Contributions to plans	46,189,434	801,367	8,135,034	54,925,865	—	—	—	—	—	10,184,140	—	—	—	54,925,865
Tax revenue	—	—	—	—	—	—	—	—	—	—	—	161,053	—	10,184,140
Other revenue	282,021	—	197,498	479,489	—	—	—	—	—	(1,247,037)	—	—	—	161,053
Statutory allocation to permanent fund	—	—	—	—	—	—	—	—	—	—	—	—	—	(1,247,037)
Statutory allocation of current year revenues	—	—	—	—	—	—	—	—	—	—	—	—	—	6,439,818
<b>Total additions</b>	1,21,637,488	745,994	15,406,958	137,784,440	962,884	873,069	882,357	959	686	4,940,350	75,965	19,797,099	1,460	165,319,299
<b>Deductions</b>														
Personnel	512,967	—	—	512,967	72,905	—	—	—	—	—	—	1,110,869	—	1,696,721
Travel	44,140	—	—	44,140	9,955	—	—	—	—	397	—	269,472	—	279,824
Supplies	21,204	—	—	21,204	—	196,483	—	—	—	—	—	32,268	—	322,954
Chapter disbursements	—	—	—	—	—	—	—	—	—	5,319,500	335,330	—	—	249,955
Trial grants	—	—	—	—	68,595	—	—	—	—	—	—	3,616,184	—	5,654,530
Lease, Utilities and Telephone	112,676	—	—	112,676	—	—	—	—	—	—	—	26,083	—	3,652,759
Other services	262	—	—	262	—	—	—	—	—	—	—	185	—	368,739
Retirement benefits	34,169,761	550,200	8,976,396	43,696,327	—	—	—	—	—	—	—	—	—	43,696,327
Contractual services	3,321,785	—	195,398	3,517,183	29,298	486,860	26,584	—	—	—	—	312,134	—	4,396,086
Scholarship payments	—	—	—	—	—	—	317,486	—	—	—	—	—	—	317,486
Other	76,180	—	897,888	974,068	41,122	—	—	—	—	46,775	—	114,607	—	1,175,572
<b>Total deductions</b>	38,258,965	550,200	10,069,652	48,878,817	221,875	677,383	344,080	—	—	5,366,172	335,330	5,481,792	—	12,426,912
<b>Change in net position</b>	83,378,523	195,794	5,337,306	88,902,523	741,008	195,706	538,277	959	686	(476,122)	(259,335)	14,315,307	1,460	15,011,570
<b>Net position, beginning of year</b>	659,002,063	2,213,415	92,983,854	754,209,332	11,971,115	10,777,306	11,047,204	420,936	(58,345)	9,441,770	13,298,068	116,861,595	5,227,506	933,216,489
<b>Net position end of year</b>	\$ 742,374,586	2,408,209	98,321,160	843,114,955	12,712,124	10,973,012	11,585,481	421,895	(57,659)	9,015,648	13,038,733	131,186,902	5,228,966	1,037,230,059

See accompanying independent auditors' report.