

LEGISLATIVE SUMMARY SHEET

Tracking No. 0218-18

DATE: June 26, 2018

TITLE OF RESOLUTION: 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 2017

PURPOSE: The purpose of this resolution is to accept the audit report prepared by KPMG for the Navajo Nation primary government for fiscal year 2017.

This written summary does not address recommended amendments as may be provided by the standing committees. The Office of Legislative Counsel requests each Council Delegate to review each proposed resolution in detail.

5-DAY BILL HOLD PERIOD: 11:59 am 6/27/18
Website Posting Time/Date: 11:59 am 6/27/18
Posting End Date: 7/2/2018
Eligible for Action: 7/2/2018

Budget & Finance Committee
Thence
Naa'bik'íyáti' Committee
Thence
Navajo Nation Council

PROPOSED NAVAJO NATION COUNCIL RESOLUTION
23rd NAVAJO NATION COUNCIL – Fourth Year, 2018

INTRODUCED BY

Dwight W. Witherspoon
(Sponsor)

TRACKING NO. 0218-18

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 2017

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).

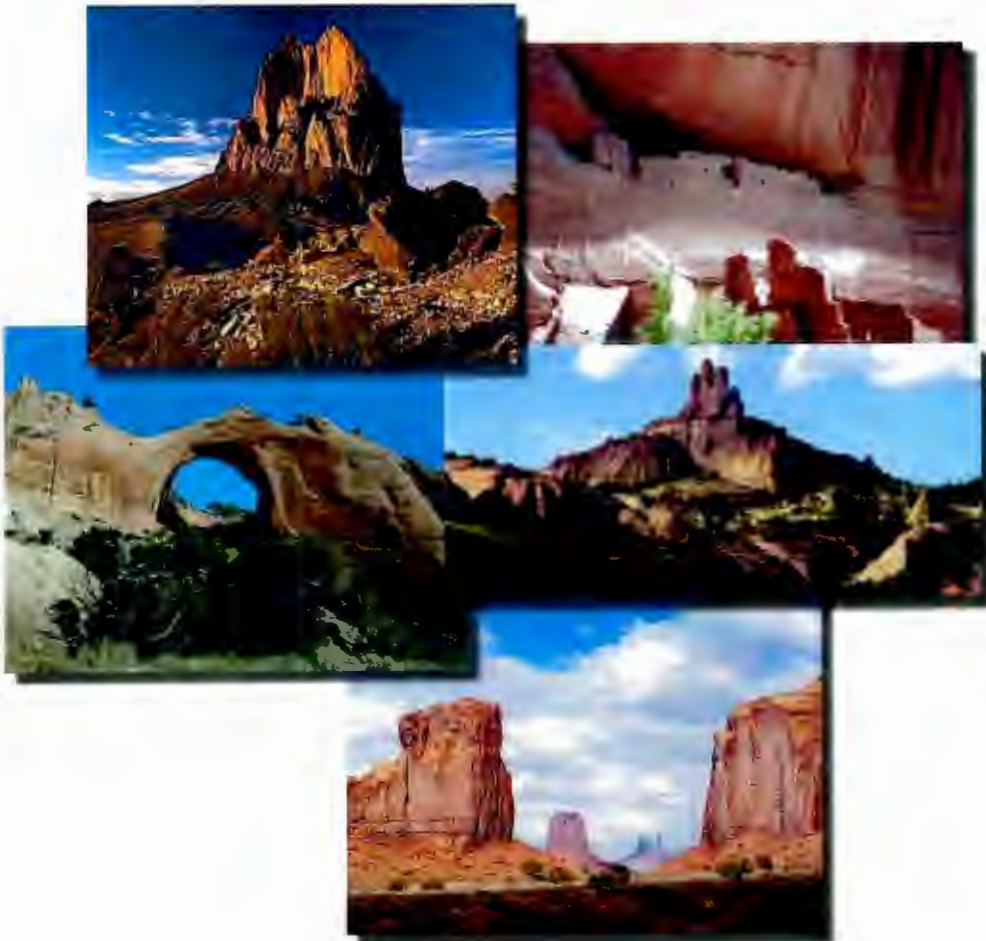
Section 2. Findings

- A. KPMG, LLP, an independent auditor has prepared the 2017 annual audit for the Navajo Nation. The annual audit is attached at **Exhibit A**.

1 B. The Navajo Nation finds it in the best interest of the Navajo Nation to accept the 2017
2 annual audit.
3

4 **Section 3. Approval**

5 The Navajo Nation hereby accepts the audit report of KPMG LLP, on the Primary
6 Government Financial Statement of the Navajo Nation for Fiscal Year 2017, attached as
7 **Exhibit A.**
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30



Basic Financial Statements - September 30, 2017

Navajo Nation



THE NAVAJO NATION

Table of Contents

	Page
Independent Auditors' Report	1
Management's Discussion and Analysis (unaudited)	4
Basic Financial Statements – Modified Accrual Budget Basis	
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
Other Supplementary Information (Unaudited)	
Schedule of Revenues, Expenditures, and Changes in Fund Balance -- Budget to Actual – General Fund – Schedule 1	70
Pension Other Information:	
Schedule of Changes in the Net Pension Liability and Related Ratios – Schedule 2	71

THE NAVAJO NATION

Table of Contents

	Page
Schedule of the Nation's Contributions – Schedule 3	72
Schedule of Investment Returns – Schedule 4	73
Supplemental Schedules – Modified Accrual Budget Basis	
Combining Balance Sheet – General Fund – Schedule 5	74
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – General Fund – Schedule 6	75
Combining Balance Sheet – Nonmajor Governmental Funds – Schedule 7	76
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances – Nonmajor Governmental Funds – Schedule 8	77
Combining Statement of Net Position – Enterprise Funds – Schedule 9	78
Combining Statement of Revenues, Expenses, and Changes in Net Position – Enterprise Funds – Schedule 10	79
Combining Statement of Cash Flows – Enterprise Funds – Schedule 11	80
Combining Statement of Net Position – Internal Service Funds – Schedule 12	81
Combining Statement of Revenues, Expenses, and Changes in Net Position – Internal Service Funds – Schedule 13	82
Combining Statement of Cash Flows – Internal Service Funds – Schedule 14	83
Combining Statement of Fiduciary Net Position – Fiduciary Funds – Schedule 15	84
Combining Statement of Changes in Fiduciary Net Position – Fiduciary Funds – Schedule 16	85



KPMG LLP
Two Park Square, Suite 700
6565 Americas Parkway, N.E.
Albuquerque, NM 87110-8179

Independent Auditors' Report

The Navajo Nation Council
The Navajo Nation:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Navajo Nation (the Nation), as of and for the year ended September 30, 2017, 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

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

Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units

The financial statements do not include financial data for the Nation's legally separate component units. The modified accrual budget basis of accounting requires 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, 2017, or the changes in financial position thereof for the year then ended, in accordance with the modified accrual budget basis of accounting.

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, 2017, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended, in accordance with the modified accrual budget basis of accounting described in note 1.

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.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements as a whole that collectively comprise the Nation's basic financial statements. The management's discussion and analysis, the schedule of revenues, expenditures, and changes in fund balance – budget to actual – general fund (schedule 1), the schedule of changes in the net pension liability and related ratios (schedule 2), the schedule of the Navajo Nation's contributions (schedule 3), the schedule of investment returns (schedule 4), and the



combining and individual 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 fund financial statements (schedules 5 to 16) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole on the basis of accounting described in note 1.

The management's discussion and analysis, the schedule of revenues, expenditures, and changes in fund balance – budget to actual – general fund (schedule 1), the schedule of changes in the net pension liability and related ratios (schedule 2), the schedule of the Navajo Nation's contributions (schedule 3), and the schedule of investment returns (schedule 4) have not been subjected to the auditing procedures applied in the audit of the basic financial statements; accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2018 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 25, 2018

THE NAVAJO NATION
Management's Discussion and Analysis
September 30, 2017
(Unaudited)

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, 2017 and 2016. 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 \$3.9 billion.
- Expenses of the Nation's governmental activities were \$633 million for the year, which included \$157 million for health and welfare, \$103 million for general government, and \$165 million for community and rural development, and \$88 million for education and training.
- As of the close of the current fiscal year, the Nation's governmental funds reported combined ending fund balance of \$3.4 billion.
- At September 30, 2017, the unassigned fund balance for the General Fund was \$64 million.
- The Nation has a significant amount of investments in the stock and bond market managed by external investment management firms. For fiscal years 2017 and 2016, the Nation's governmental funds experienced a \$230 million increase and \$173 million increase in fair value, respectively. In addition, the fiduciary funds experienced a \$102 million increase and \$71 million increase in fair value, respectively.
- The Nation receives a significant portion of operating revenues from oil and gas royalty payments and coal royalty payments, \$82 million in fiscal year 2017 and \$70 million in fiscal year 2016.

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.

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 NAVAJO NATION

Management's Discussion and Analysis

September 30, 2017

(Unaudited)

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.

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

THE NAVAJO NATION
Management's Discussion and Analysis
September 30, 2017
(Unaudited)

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.

Other Information

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

THE NAVAJO NATION
Management's Discussion and Analysis
September 30, 2017
(Unaudited)

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 \$3.9 billion at September 30, 2017 as compared to \$3.5 billion at September 30, 2016.

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 nonspendable fund balance of \$2.2 billion and \$1.9 billion represents 97% of all nonexpendable net position as of September 30, 2017 and 2016, respectively.

The Nation's net position						
	Governmental activities			Business-type activities		
	2017	2016	Change	2017	2016	Change
	(In thousands)					
Current and other assets	\$ 3,986,141	3,516,501	469,640	85,533	69,717	15,816
Capital assets	504,757	490,759	13,998	19,425	18,294	1,131
Deferred outflow of resources, pensions	39,862	33,027	6,835	712	645	67
Total assets and deferred outflow s	<u>\$ 4,530,760</u>	<u>4,040,287</u>	<u>490,473</u>	<u>105,670</u>	<u>88,656</u>	<u>17,014</u>
Long-term liabilities	\$ 270,170	261,656	8,514	3,379	3,642	(263)
Other liabilities	469,680	334,634	135,046	1,189	1,737	(548)
Total liabilities	<u>\$ 739,850</u>	<u>596,290</u>	<u>143,560</u>	<u>4,568</u>	<u>5,379</u>	<u>(811)</u>
Deferred inflow of resources, pensions	\$ 30,805	20,022	10,783	550	391	159
Net position:						
Net investment in capital assets	\$ 447,869	431,837	16,032	19,425	18,294	1,131
Restricted	2,477,254	2,218,091	259,163	—	—	—
Unrestricted	834,982	774,047	60,935	81,127	64,592	16,535
Total net position	<u>\$ 3,760,105</u>	<u>3,423,975</u>	<u>336,130</u>	<u>100,552</u>	<u>82,886</u>	<u>17,666</u>

THE NAVAJO NATION
Management's Discussion and Analysis
September 30, 2017
(Unaudited)

Analysis of the Nation's Operations

The following table provides a summary of the Nation's operations for the years ended September 30, 2017 and 2016. Governmental activities increased the Nation's net position by \$336 million in 2017 compared to an increase of \$293 million in 2016. The 2017 increase is largely due to \$304 million in unrestricted investment income. The 2016 increase is largely due to \$102 million in tax revenue, a \$233 million unrestricted investment income, and the \$74 million 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 2017, the oil and gas prices stabilized resulting in an increase in revenues. In fiscal year 2017, 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. However, the Nation's Council approved expenditure plans out of the Permanent Fund and the Sihasin Fund for chapter and infrastructure projects.

THE NAVAJO NATION
Management's Discussion and Analysis
September 30, 2017
(Unaudited)

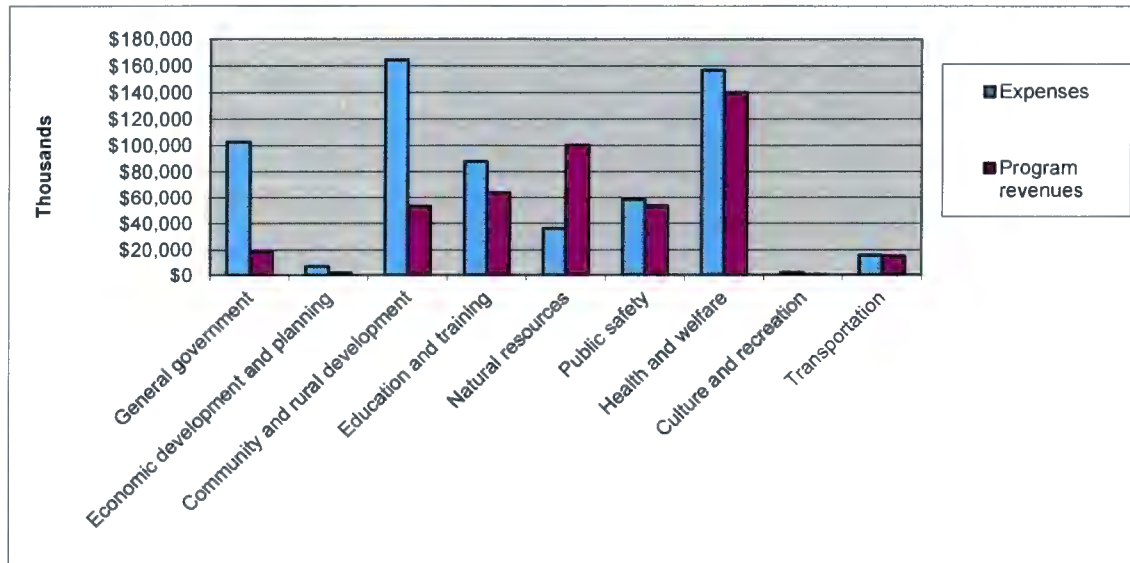
The Nation averaged \$306 million of external funding through grants and contracts for each of the past two years. The largest portion of that funding is for health and welfare activities. The Nation received \$308 million of external funding in 2017 compared to \$304 million of external funding in 2016, an increase of approximately \$4 million.

The Nation's changes in net position						
	Governmental activities			Business-type activities		
	2017	2016	Change	2017	2016	Change
	(In thousands)					
Revenues:						
Program revenues:						
Charges for services	\$ 141,139	114,346	26,793	21,479	19,602	1,877
Operating grants and contributions	295,847	292,624	3,223	—	—	—
Capital grants and contributions	12,583	11,348	1,235	—	—	—
General revenues:						
Taxes:						
Business activity	6,595	3,906	2,689	—	—	—
Possessory interest	26,342	29,412	(3,070)	—	—	—
Sales	46,693	53,069	(6,376)	—	—	—
Other	19,778	15,990	3,788	—	—	—
Unrestricted investment income	303,712	232,977	70,735	74	34	40
Land, buildings, business site, and right-of-way lease	60,818	73,510	(12,692)	—	—	—
Total revenues	913,507	827,182	86,325	21,553	19,636	1,917
Expenses:						
General government	102,672	111,443	(8,771)	—	—	—
Economic development and planning	7,033	3,011	4,022	—	—	—
Community and rural development	164,531	63,059	101,472	—	—	—
Education and training	87,662	84,171	3,491	—	—	—
Natural resources	35,819	42,957	(7,138)	—	—	—
Public safety	58,214	57,511	703	—	—	—
Health and welfare	156,895	148,777	8,118	—	—	—
Culture and recreation	1,960	3,248	(1,288)	—	—	—
Transportation	15,767	17,339	(1,572)	—	—	—
Interest on long-term debt	2,354	1,363	991	—	—	—
Business Industrial Development Fund	—	—	—	787	3,701	(2,914)
Credit Services	—	—	—	1,023	650	373
Navajo Nation Housing	—	—	—	959	899	60
Archaeology Services	—	—	—	—	17	(17)
Parks and Recreation	—	—	—	4,329	4,418	(89)
Fish and Wildlife	—	—	—	1,510	1,592	(82)
Navajo Nation Code	—	—	—	—	2	(2)
Navajo Transit	—	—	—	69	109	(40)
Livestock Custody	—	—	—	80	109	(29)

THE NAVAJO NATION
Management's Discussion and Analysis
September 30, 2017
(Unaudited)

The Nation's changes in net position						
	Governmental activities			Business-type activities		
	2017	2016	Change	2017	2016	Change
	(In thousands)					
Fourth of July	\$ —	—	—	145	339	(194)
Annual Navajo Nation Fair	—	—	—	1,726	1,466	260
Tribal Ranch	—	—	—	733	517	216
Total expenses	632,907	532,879	100,028	11,361	13,819	(2,458)
Increase (decrease) in net assets before transfers and extraordinary item claims settlement	280,600	294,303	(13,703)	10,192	5,817	4,375
Transfers	(2,884)	(880)	(2,004)	2,884	880	2,004
Statutory allocations	—	—	—	4,590	5,186	(596)
Extraordinary item – claims settlement	58,414	—	58,414	—	—	—
Change in net position	336,130	293,423	42,707	17,666	11,883	5,783
Net position, beginning of year as restated	3,423,975	3,130,552	293,423	82,886	71,003	11,883
Net position, end of year	\$ 3,760,105	3,423,975	336,130	100,552	82,886	17,666

2017 Expenses and Program Revenues – Governmental Activities



THE NAVAJO NATION
Management's Discussion and Analysis
September 30, 2017
(Unaudited)

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.

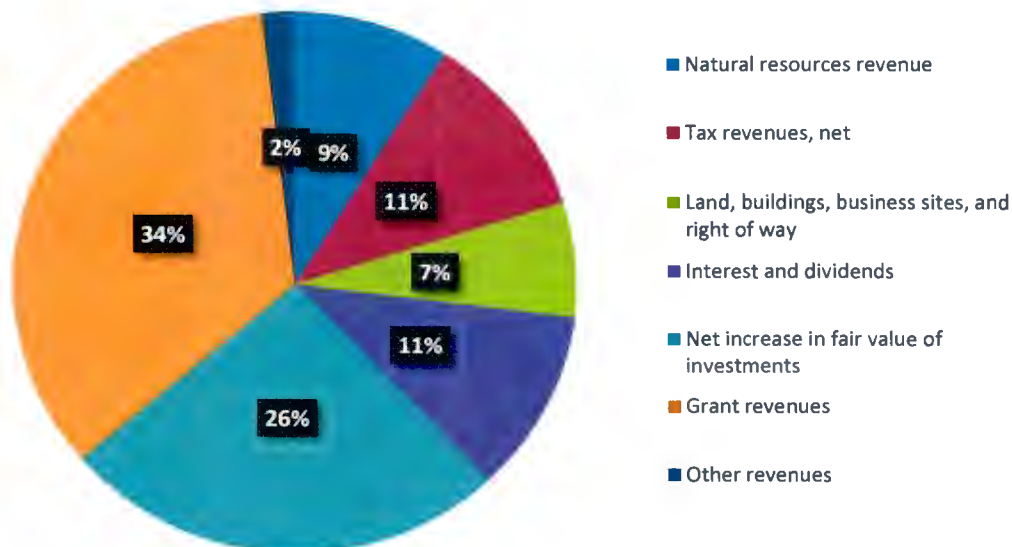
At the end of the current fiscal year, the Nation's governmental funds reported combined ending fund balance of \$3.4 billion. Approximately, 98% of this total amount is reserved to indicate that it is not available for new spending because it is nonspendable, restricted, committed, and/or assigned.

The General Fund's expenditures exceeded revenues by \$15 million during 2017.

At September 30, 2017, the Grant Fund recorded unearned revenue of \$382 million. 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 \$241 million during the year ended September 30, 2017. The fund has a net increase in fair value of investments of \$174 million and interest and dividends of \$67 million. In addition, statutory allocations revenues of \$31 million were added to the fund this year.

2017 Revenue by Source – Governmental Funds



THE NAVAJO NATION
Management's Discussion and Analysis
September 30, 2017
(Unaudited)

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, 2017, enterprise fund net position increased \$18 million and internal service fund net position increased \$0.8 million.

General Fund Budgetary Highlights

- The Nation approved appropriations for fiscal year 2017 expenditures of \$249 million. This amount included an initial operating budget of \$204 million and supplemental appropriations approved during the year for various purposes of \$45 million.
- Total net revenues of \$175 million exceeded the original projection of \$153 million by \$21 million.
- On a budgetary basis, expenditures exceeded revenues by approximately \$2 million before transfers.

Capital Assets

The Nation's investment in capital assets for its governmental and business-type activities as of September 30, 2017 amounts to \$524 million (net of accumulated depreciation). This investment in capital assets includes land, building, equipment, improvements, infrastructure, and construction in progress.

The construction in progress of \$8 million decreased from the prior year balance of \$44 million, which was attributable to the completion of construction for a judicial building project.

	Governmental activities		Business-type activities	
	2017	2016	2017	2016
Land and land development	\$ 90,981	90,481	739	739
Construction in progress	7,972	44,491	546	3,165
Buildings and improvements	478,679	412,696	26,938	22,904
Vehicles	114,075	112,387	—	—
Equipment	84,745	82,986	2,039	1,776
Furniture and fixtures	6,889	6,645	—	—
Accumulated depreciation	(278,584)	(258,927)	(10,837)	(10,290)
Total	<u>\$ 504,757</u>	<u>490,759</u>	<u>19,425</u>	<u>18,294</u>

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

THE NAVAJO NATION
Management's Discussion and Analysis
September 30, 2017
(Unaudited)

Debt Administration

At September 30, 2017, the Nation had the following debt:

Outstanding Debt at Year-End – Notes Payable, Bond Payable, and Bond Premium					
		Governmental activities		Business-type activities	
		2017	2016	2017	2016
Notes payable	\$	4,498	6,308	—	—
Bond payable		50,290	50,290	—	—
Bond premium		2,100	2,324	—	—
Total	\$	56,888	58,922	—	—

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 December 2017, the Nation's actual revenues were at 43% of projected fiscal year 2018 revenues.
- Fluctuation in the market of oil and gas prices and coal prices will impact the Nation's overall revenues. For fiscal year 2018, increasing oil prices are expected to lead to a decrease in revenues.
- In fiscal year 2017, a five-year expenditure plan was passed to spend the derived income in the Permanent Fund. The first year (FY 2017) has been completed. \$30 million is approved for the second year and \$31 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 million 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 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 \$20 million for the United States Department of Agriculture's Pasture, Rangeland, and Forage Pilot Insurance Premium Program for fiscal years 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 Generating Station.
- Standard and Poor's has upgraded the long-term rating on the Navajo Nation Series 2015 General Obligation refunding bond to A. 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
September 30, 2017
(Unaudited)

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

THE NAVAJO NATION
Statement of Net Position
Modified Accrual Budget Basis
September 30, 2017

Assets	Primary government		
	Governmental activities	Business-type activities	Total
Cash and cash equivalents (note 2)	\$ 40,672,891	65,569,888	106,242,779
Investments (note 2)	960,344,095	12,609,409	972,953,504
Accounts and notes receivable, net (note 3)	61,001,943	7,326,774	68,328,717
Accrued interest receivable	4,870,274	27,071	4,897,345
Prepaid expenses and other assets	5,450,268	—	5,450,268
Restricted assets:			
Cash and cash equivalents (note 2)	189,885,105	—	189,885,105
Investments (note 2)	2,515,508,101	—	2,515,508,101
Accounts and notes receivable, net (note 3)	200,494,818	—	200,494,818
Accrued interest receivable	6,220,415	—	6,220,415
Other assets	1,693,180	—	1,693,180
Capital assets (note 4):			
Land and construction in progress	98,953,396	1,285,057	100,238,453
Buildings and equipment, net of accumulated depreciation	405,803,722	18,140,383	423,944,105
Total capital assets	504,757,118	19,425,440	524,182,558
Total assets	4,490,898,208	104,958,582	4,595,856,790
Deferred Outflow of Resources			
Pension-related outflows (note 8)	39,862,136	712,372	40,574,508
Total deferred outflow of resources	39,862,136	712,372	40,574,508
Total assets and deferred outflows	\$ 4,530,760,344	105,670,954	4,636,431,298
Liabilities			
Accounts payable and accrued liabilities (note 6)	\$ 85,512,447	1,188,949	86,701,396
Unearned revenue	384,168,087	—	384,168,087
Long-term liabilities (note 7):			
Due within one year	34,238,840	180,604	34,419,444
Due in more than one year	56,953,433	—	56,953,433
Net pension liability	178,977,582	3,198,494	182,176,076
Total long-term liabilities	270,169,855	3,379,098	273,548,953
Total liabilities	739,850,389	4,568,047	744,418,436
Deferred Inflow of Resources			
Pension-related inflows (note 8)	30,804,842	550,511	31,355,353
Total deferred inflow of resources	30,804,842	550,511	31,355,353
Net Position			
Net investment in capital assets	447,868,698	19,425,440	467,294,138
Expendable restricted assets:			
Restricted for community and rural development	73,888,549	—	73,888,549
Restricted for economic development and loans	9,215,334	—	9,215,334
Restricted for education	72,003,549	—	72,003,549
Restricted for claims and refunds	45,165,508	—	45,165,508
Nonexpendable restricted assets:			
Restricted for future government operations	2,218,701,523	—	2,218,701,523
Restricted for chapter activities	58,280,191	—	58,280,191
Unrestricted	834,981,761	81,126,956	916,108,717
Total net position	3,760,105,113	100,552,396	3,860,657,509
Total liabilities, deferred inflows, and net position	\$ 4,530,760,344	105,670,954	4,636,431,298

See accompanying notes to basic financial statements.

THE NAVAJO NATION

Statement of Activities
Modified Accrual Budget Basis
Year ended September 30, 2017

Exhibit B

Functions/programs	Expenses	Program revenues			Net (expense) revenue and changes in net position		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities							
General government	\$ 102,672,487	9,637,329	9,383,599	82,263	(83,569,296)		(83,569,296)
Economic development and planning	7,033,323	778,770	714,131	372,592	(5,167,830)		(5,167,830)
Community and rural development	164,531,010	33,876,049	18,851,910	2,633,085	(109,169,966)		(109,169,966)
Education and training	87,661,723	8,876,292	54,667,687	174,854	(23,942,890)		(23,942,890)
Natural resources	35,819,257	83,933,709	15,342,005	1,100,475	64,556,932		64,556,932
Public safety	58,214,151	3,297,568	48,593,196	1,559,196	(4,764,191)		(4,764,191)
Health and welfare	156,894,597	322,162	136,572,016	3,383,643	(16,616,776)		(16,616,776)
Culture and recreation	1,959,511	46,754	—	—	(1,912,757)		(1,912,757)
Transportation	15,767,680	370,680	11,722,374	3,277,158	(397,468)		(397,468)
Interest on long-term debt	2,354,100	—	—	—	(2,354,100)		(2,354,100)
Total governmental activities	632,907,839	141,139,313	295,846,918	12,583,266	(183,338,342)	—	(183,338,342)
Business-type activities							
Business Industrial Development Fund	786,712	1,374,221	—	—	—	587,509	587,509
Credit Services	1,022,901	665,163	—	—	—	(357,638)	(357,638)
Navajo Nation Housing	959,036	942,625	—	—	—	(16,411)	(16,411)
Parks and Recreation	4,328,750	14,987,782	—	—	—	10,659,032	10,659,032
Fish and Wildlife	1,510,467	831,374	—	—	—	(679,093)	(679,093)
Navajo Nation Code	—	3,102	—	—	—	3,102	3,102
Navajo Transit Fund	69,119	67,388	—	—	—	(1,731)	(1,731)
Livestock Custody	80,359	208,179	—	—	—	127,820	127,820
Treaty Days Celebration Fund	144,704	152,346	—	—	—	7,642	7,642
Annual Navajo Nation Fair	1,726,270	1,039,690	—	—	—	(686,580)	(686,580)
Tribal Ranch	733,335	1,206,733	—	—	—	473,398	473,398
Veterinary Medical Sales Fund	59	—	—	—	—	(59)	(59)
Total business-type activities	11,361,612	21,478,603	—	—	—	10,116,991	10,116,991
	\$ 644,269,451	162,617,916	295,846,918	12,583,266	(183,338,342)	10,116,991	(173,221,351)
General Revenue							
Taxes (note 9)							
Business activity					6,594,913	—	6,594,913
Possessory interest					26,342,637		26,342,637
Fuel excise					11,092,404		11,092,404
Oil and gas severance					4,537,752		4,537,752
Sales					46,692,980		46,692,980
Tobacco products					553,070		553,070
Hotel occupancy					1,555,812		1,555,812
Junk food tax					1,881,976		1,881,976
Alcohol tax					157,007		157,007
Unrestricted investment income					303,712,503	74,526	303,787,029
Statutory allocation					—	4,589,878	4,589,878
Land, buildings, business site, and right of way lease					60,817,686	—	60,817,686
Transfers					(2,884,500)	2,884,500	—
Extraordinary item – claim settlement					58,413,809		58,413,809
Total general revenues and transfers					519,468,049	7,548,904	527,016,953
Change in net position					336,129,707	17,665,895	353,795,602
Net position, beginning of year					3,423,975,406	82,886,501	3,506,861,907
Net position, end of year					\$ 3,760,105,113	100,552,396	3,860,657,509

See accompanying notes to basic financial statements

THE NAVAJO NATION

Balance Sheet – Governmental Funds

Modified Accrual Budget Basis

September 30, 2017

Assets	General fund (Schedule 5)	Grant fund	Permanent fund	Other governmental funds	Total governmental funds
Cash and cash equivalents (note 2)	\$ 19,079,426	43,917,230	57,018,681	76,781,374	196,796,711
Investments (including \$5,446,358 of pledged securities) (note 2)	726,670,170	336,679,503	2,015,142,036	351,142,620	3,429,634,329
Accounts receivable, net	275,315	152,326	—	7,790	435,431
Accrued interest receivable	3,832,076	—	5,453,237	1,681,294	10,966,607
Note receivable (note 3)	23,120,000	—	149,084,393	54,407,257	226,611,650
Receivable from grantors	—	32,855,367	—	—	32,855,367
Due from other funds (note 5)	18,966,174	—	—	—	18,966,174
Restricted assets	505,849	1,187,331	—	—	1,693,180
Other assets	5,450,268	—	—	—	5,450,268
Total assets	\$ 797,899,278	414,791,757	2,226,698,347	484,020,335	3,923,409,717
Liabilities and Fund Balances					
Liabilities:					
Accounts payable (note 6)	\$ 43,044,585	6,951,249	7,352,808	4,402,230	61,750,872
Accrued liabilities (note 6)	13,477,080	7,090,270	585,723	—	21,153,073
Due to other funds (note 5)	—	18,966,174	—	—	18,966,174
Unearned revenue	2,325,730	381,784,064	58,293	—	384,168,087
Total liabilities	58,847,395	414,791,757	7,996,824	4,402,230	486,038,206
Fund balances:					
Nonspendable:					
Permanent fund principal	—	—	2,069,617,130	58,280,191	2,127,897,321
Long-term receivable	23,120,000	—	149,084,393	54,255,254	226,459,647
Spendable:					
Restricted for:					
Restricted assets	505,849	—	—	—	505,849
Economic development loans	8,709,485	—	—	—	8,709,485
Education	—	—	—	61,308,042	61,308,042
Special projects	—	—	—	52,340,700	52,340,700
Other capital projects	—	—	—	9,758,377	9,758,377
Committed for:					
Other capital projects	535,517,575	—	—	176,018,346	711,535,921
Other purposes	100,335,254	—	—	67,657,195	167,992,449
Assigned to:					
Other purposes	7,271,105	—	—	—	7,271,105
Unassigned:					
General fund	63,592,615	—	—	—	63,592,615
Total fund balances	739,051,883	—	2,218,701,523	479,618,105	3,437,371,511
Total liabilities and fund balances	\$ 797,899,278	414,791,757	2,226,698,347	484,020,335	
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.					496,983,983
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).					62,904,432
Amounts presented in the statement of net position relating to net pension outflows					39,009,304
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					(4,498,380)
Bond payable					(50,290,000)
Bond premium					(2,100,040)
Net pension liability					(175,148,438)
Compensated absences and retirement accrual					(13,981,473)
Amounts presented in the statement of net position relating to net pension inflows					(30,145,786)
Net position of governmental activities					\$ 3,760,105,113

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, 2017

Revenues	General fund (Schedule 6)	Grant fund	Permanent fund	Other governmental funds	Total governmental funds
Natural resource revenue:					
Oil and gas	\$ 24,302,755	—	—	—	24,302,755
Mining	57,300,075	—	—	—	57,300,075
Tax revenue, net (note 9)	82,882,562	—	—	16,525,989	99,408,551
Land, buildings, business site, and right-of-way revenue	60,207,178	—	—	610,508	60,817,686
Grant revenue	—	308,430,184	—	—	308,430,184
Interest and dividends	21,059,734	—	67,099,525	11,035,316	99,194,575
Net increase in fair value of investments	39,826,052	—	174,334,821	15,353,504	229,514,377
Other revenue	15,515,466	—	804,581	16,827,616	33,147,663
Statutory allocation to permanent fund	(27,785,474)	—	30,755,812	(1,719,521)	1,250,817
Statutory allocation of current year revenues	(28,833,351)	—	—	18,096,829	(10,736,522)
Total revenues	244,474,997	308,430,184	272,994,739	76,730,241	902,630,161
Expenditures					
Current:					
General government	59,586,099	9,383,599	7,853,722	7,676,542	84,499,962
Economic development and planning	4,354,907	714,131	—	625,890	5,694,928
Community and rural development	117,898,214	18,851,910	6,784,804	8,506,487	152,041,415
Education and training	21,415,406	54,667,687	—	6,641,010	82,724,103
Natural resources	17,470,401	15,342,005	—	1,918,426	34,730,832
Public safety	9,051,488	48,593,196	—	4,452,246	62,096,930
Health and welfare	18,312,692	136,572,016	—	—	154,884,708
Culture and recreation	1,063,327	—	—	683,407	1,746,734
Transportation	—	11,722,374	—	1,614,165	13,336,539
Debt service – principal	869,164	—	—	940,805	1,809,969
Capital outlay	9,655,350	12,583,266	6,692,773	7,767,724	36,699,113
Total expenditures	259,677,048	308,430,184	21,331,299	40,826,702	630,265,233
(Deficiency) excess of revenues over expenditures	(15,202,051)	—	251,663,440	35,903,539	272,364,928
Other Financing Sources (Uses)					
Transfers (note 5)	2,116,195	—	(10,381,000)	2,000,000	(6,764,805)
Total other financing sources (uses)	2,116,195	—	(10,881,000)	2,000,000	(6,764,805)
Extraordinary item					
Claim settlement	58,413,809	—	—	—	58,413,809
Total extraordinary item	58,413,809	—	—	—	58,413,809
Net change in fund balances (Exhibit E)	45,327,953	—	240,782,440	37,903,539	324,013,932
Fund balance, beginning of year	693,723,930	—	1,977,919,083	441,714,566	3,113,357,579
Fund balance, end of year	\$ <u>739,051,883</u>	<u>—</u>	<u>2,218,701,523</u>	<u>479,618,105</u>	<u>3,437,371,511</u>

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, 2017

Net change in fund balances – governmental funds (Exhibit D)	\$	324,013,932
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	\$	35,647,458
Depreciation expense		<u>(19,985,869)</u>
		15,661,589
Net deferred outflow 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.		6,733,788
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.		1,809,969
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.		(32,426)
Net pension liabilities do not require the use of current financial resources and, therefore, are not reported in the governmental funds.		(2,528,940)
Net 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.		(10,579,432)
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>827,517</u>
Change in net position of governmental activities (Exhibit B)	\$	<u><u>336,129,707</u></u>

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Statement of Net Position
Proprietary Funds
Modified Accrual Budget Basis
September 30, 2017

Assets and Deferred Outflows	Business-type activities – enterprise funds	Governmental activities – internal service funds
Current assets:		
Cash and cash equivalents (note 2)	\$ 65,569,888	33,761,285
Investments (note 2)	12,609,409	46,217,867
Receivables:		
Accrued interest receivable, net	27,071	124,082
Accounts receivable	326,953	1,594,313
Current portion of notes receivable (note 3)	<u>1,585,847</u>	<u>—</u>
Total receivables	<u>1,939,871</u>	<u>1,718,395</u>
Total current assets	<u>80,119,168</u>	<u>81,697,547</u>
Noncurrent assets:		
Receivables:		
Notes receivable, net (note 3)	5,413,974	—
Capital assets (note 4):		
Construction in progress	545,638	—
Land and land development costs	739,419	—
Buildings	26,937,738	51,829
Vehicles	—	43,356,185
Equipment	<u>2,039,317</u>	<u>6,001,774</u>
Total capital assets	<u>30,262,112</u>	<u>49,409,788</u>
Accumulated depreciation	<u>10,836,672</u>	<u>41,636,653</u>
Capital assets, net	<u>19,425,440</u>	<u>7,773,135</u>
Total noncurrent assets	<u>24,839,414</u>	<u>7,773,135</u>
Pension-related outflows	<u>712,372</u>	<u>852,832</u>
Total deferred outflow of resources	<u>712,372</u>	<u>852,832</u>
Total assets and deferred outflows	<u>105,670,954</u>	<u>90,323,514</u>
Liabilities, Deferred Inflow, and Net Position		
Current liabilities:		
Accounts payable (note 6)	\$ 660,126	387,009
Current portion of compensated absences (note 7)	180,604	278,179
Current estimated claims payable (note 8)	—	16,204,041
Accrued liabilities (note 6)	<u>528,823</u>	<u>2,221,493</u>
Total current liabilities	<u>1,369,553</u>	<u>19,090,722</u>
Noncurrent liabilities:		
Estimated claims payable (note 7)	—	3,840,160
Net pension liability (note 8)	<u>3,198,494</u>	<u>3,829,144</u>
Total noncurrent liabilities	<u>3,198,494</u>	<u>7,669,304</u>
Total liabilities	<u>4,568,047</u>	<u>26,760,026</u>
Pension-related inflows	<u>550,511</u>	<u>659,056</u>
Total deferred inflow of resources	<u>550,511</u>	<u>659,056</u>
Net position:		
Net investment in capital assets	19,425,440	7,773,135
Expendable restricted net position		
Restricted for claims and refunds	—	45,165,508
Unrestricted	<u>81,126,956</u>	<u>9,965,789</u>
Total net position	<u>100,552,396</u>	<u>62,904,432</u>
Total liabilities, deferred inflows, and net position	<u>\$ 105,670,954</u>	<u>90,323,514</u>

See accompanying notes to basic financial statements.

Exhibit G

THE NAVAJO NATION

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

Proprietary Funds

Modified Accrual Budget Basis

Year ended September 30, 2017

	Business-type activities – enterprise funds	Governmental activities – internal service funds
Operating revenues:		
Rental income	\$ 3,016,077	—
Interest income – notes receivable	606,464	—
Insurance premium income	—	54,455,270
Charges for services	17,331,049	14,171,001
Other income	525,013	1,461,696
Total operating revenues	21,478,603	70,087,967
Operating expenses:		
Personnel	4,542,454	5,541,686
Travel, per diem, and vehicle	810,792	472,494
Supplies	734,637	5,143,147
Contractual service	2,320,344	6,648,979
Lease, telephone, and utilities	368,928	419,176
Repairs and maintenance	614,935	457,062
Recovery of bad debts	522,708	346,187
Depreciation expense	555,396	2,993,398
Benefits and claims	—	47,529,064
Reinsurance premiums	28,486	3,411,825
Other expenses	862,932	1,570,108
Total operating expenses	11,361,612	74,533,126
Operating income (expense)	10,116,991	(4,445,159)
Nonoperating revenues:		
Interest and dividends	74,526	573,108
Net increase in fair value of investments	—	819,263
Statutory allocations	4,589,878	—
Total nonoperating revenues	4,664,404	1,392,371
Nonoperating revenues, net	4,664,404	1,392,371
Income before transfers	14,781,395	(3,052,788)
Transfers (note 5)	2,884,500	3,880,305
Change in net position	17,665,895	827,517
Net position, beginning of year	82,886,501	62,076,915
Net position, end of year	\$ 100,552,396	62,904,432

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Statement of Cash Flows
Proprietary Funds
Modified Accrual Budget Basis
Year ended September 30, 2017

	Business-type activities – enterprise funds	Governmental activities – internal service funds
Cash flows from operating activities:		
Receipts from customers	\$ 21,573,796	14,172,245
Cash received from premiums from the government	—	30,488,063
Cash received from others for premiums	—	24,390,430
Receipt of interest on loans	606,464	—
Payments to employees for services	(4,713,376)	(5,619,516)
Payments of claims	—	(39,363,505)
Payments to suppliers	(734,579)	(5,143,147)
Payments to third parties for services	(5,029,622)	(12,593,990)
Other payments	(242,853)	(934,767)
Net cash from operating activities	<u>11,459,830</u>	<u>5,395,813</u>
Cash flows from capital and related financing activity:		
Acquisition of capital assets	(1,780,045)	(1,329,718)
Net cash from capital and related financing activity	<u>(1,780,045)</u>	<u>(1,329,718)</u>
Cash flows from noncapital and related financing activity:		
Statutory Allocation	4,589,878	—
Transfer	2,884,500	3,880,305
Net cash from noncapital and related financing activity	<u>7,474,378</u>	<u>3,880,305</u>
Cash flows from investing activities:		
Purchase of investments	(43,142,215)	(77,636,951)
Sales of investments	39,349,384	72,742,431
Interest on investment and cash balances	53,699	532,503
Net cash from investing activities	<u>(3,739,132)</u>	<u>(4,362,017)</u>
Net increase in cash and cash equivalents	13,415,031	3,584,383
Cash and cash equivalents, beginning of year	<u>22,134,857</u>	<u>30,176,902</u>
Cash and cash equivalents, end of year	<u>\$ 65,569,888</u>	<u>33,761,285</u>
Reconciliation of operating income to net cash from operating activities:		
Operating income	\$ 10,116,991	(4,445,159)
Adjustments to reconcile operating income to net cash from operating activities:		
Depreciation expense	555,396	2,993,398
Provision for bad debts	522,708	346,187
Loss on disposal of capital assets	93,373	1
Increase in accounts receivable	(336,627)	(975,104)
Decrease in notes receivable	1,226,669	—
Increase in deferred outflows	(67,099)	(101,215)
Decrease in accounts payable	(547,758)	(611,238)
Decrease in net pension liability	(252,721)	(190,730)
(Decrease) increase in compensated absences	(10,430)	10,710
Increase in estimated claims payable	—	8,165,559
Increase in deferred inflows	159,328	203,404
Total adjustments	<u>1,342,839</u>	<u>9,840,972</u>
Net cash from operating activities	<u>\$ 11,459,830</u>	<u>5,395,813</u>

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Statement of Fiduciary Net Position
Fiduciary Funds
Modified Accrual Budget Basis
September 30, 2017

Assets and Deferred Outflows	Pension trust funds	Private- purpose trust funds
Cash and cash equivalents (note 2)	\$ 20,005,159	35,640,059
Investments (note 2)	927,613,224	171,558,124
Accrued interest receivable	1,310,744	677,605
Note receivable (note 3)	—	8,845,942
Participant loans receivable	8,221,852	—
Total assets	957,150,979	216,721,730
Pension-related outflows	—	85,831
Total deferred outflows of resources	—	85,831
Total assets and deferred outflows	957,150,979	216,807,561
Liabilities, Deferred Inflows, and Net Position		
Accounts payable and accrued liabilities (note 6)	173,299	448,034
Net pension liability (note 8)	—	385,374
Total liabilities	173,299	833,408
Pension-related inflows	—	66,329
Total deferred inflows of resources	—	66,329
Net position held in trust for pension benefits and other purposes	\$ 956,977,680	215,907,824

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, 2017

	Pension trust funds	Private- purpose trust funds
Additions:		
Interest and dividends	\$ 22,782,478	4,452,594
Net increase in fair value of investments	89,515,482	12,199,080
Contributions to plans (note 8)	51,973,055	—
Tax revenue (note 9)	—	10,423,469
Other revenue	358,723	168,967
Statutory allocation of current year revenue, net	—	4,895,827
Total additions	164,629,738	32,139,937
Deductions:		
Personnel	585,544	83,237
Travel	48,908	323,440
Supplies	27,597	17,525
Chapter disbursements	—	5,147,997
Tribal grants	44	3,451,703
Utilities	119,199	15,445
Repair and maintenance	—	—
Retirement benefits	45,306,783	—
Contractual services	3,878,182	413,195
Scholarship payments	—	289,158
Other	800,756	605,517
Total deductions	50,767,013	10,347,217
Change in net position	113,862,725	21,792,720
Net position, beginning of year	843,114,955	194,115,104
Net position, end of year	\$ 956,977,680	215,907,824

See accompanying notes to basic financial statements.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(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 No. 39, *Determining Whether Certain Organizations Are Component Units – an amendment of GASB Statement No. 14*, GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, and GASB Statement No. 80, *Blending Requirements for Certain Component Units*, which provide guidance in determining whether certain organizations are component units and the presentation of these component units in the financial statements. Criteria for determining whether related organizations are component units include the following circumstances:

- Appointment of a voting majority of an organization's governing authority and the ability of the Nation to either impose its will on that organization or the potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the Nation, or;
- An organization is fiscally dependent on the Nation and provides specific financial benefits to, or imposes specific financial burdens on, the Nation, or;
- It is determined that it would be misleading to exclude the related organization from the Nation's financial statements because of the nature of the entity or because the entity is closely related to or financial integrated with the Nation.

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. The modified budget basis of accounting requires 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

THE NAVAJO NATION

Notes to Basic Financial Statements

September 30, 2017

activity have been made in these statements. The governmental activities are reported separately from the business-type activities.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Nation's governmental and business-type activities. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational 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 NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

the amounts recorded is subject to approval and audit by grantor agencies and availability of funds from such grantors.

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

(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.

THE NAVAJO NATION

Notes to Basic Financial Statements

September 30, 2017

(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.

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 2% 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, 2017

(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) *Department of Public Safety (DPS) Alcohol Tax Fund (Nonmajor Fund)*

The DPS Alcohol Tax Fund was established to fund public welfare. A 3.25% tax is added to the sale of all alcoholic beverages sold.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(xv) *Healthy Diné Tax Act Fund*

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

Debt Service Fund Type

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

(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. 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, 2017

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, 2017

(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.

(xiii) *Veterinary Medical Sales Fund (Nonmajor Fund)*

The Navajo Nation Veterinary Medical Sales Fund was established to enable the Nation's Veterinary and Livestock Program to provide low cost comprehensive veterinary services and interact with Federal and State Veterinary Agencies in accordance with the Nation's Emergency Response to a Foreign Animal Disease, the Livestock and Foreign Animal Disease Act of 2006, and the Nation's Veterinary Act of 2007.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

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.

(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.

THE NAVAJO NATION

Notes to Basic Financial Statements

September 30, 2017

(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.

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.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(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.

(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.

THE NAVAJO NATION

Notes to Basic Financial Statements

September 30, 2017

(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.

(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 are 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. generally accepted accounting principles, as modified by Navajo Nation Council resolutions. Under this basis of accounting, governmental fund revenues are recorded when susceptible to accrual, that is, 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

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

expenditures (budgetary basis) as opposed to a commitment of fund balance (modified accrual budget basis).

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

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

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

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

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

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

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

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

(e) Net Position Classification and Fund Balances

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

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

Restricted net position 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 NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

The income generated from the principal may be expended or added to principal. The government-wide statement of net position reports restricted net position and net position restricted by enabling legislation as follows:

Restricted for claims and refunds	\$ 45,165,508
Restricted for future government operations	2,218,701,523
Total net position restricted by enabling legislation	<u>2,263,867,031</u>
Restricted for community and rural development	73,888,549
Restricted for economic development and loans	9,215,334
Restricted for education	72,003,549
Restricted for chapter activities	<u>58,280,191</u>
Total restricted net position	<u><u>\$ 2,477,254,654</u></u>

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

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

(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.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(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 committed 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.

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 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

THE NAVAJO NATION

Notes to Basic Financial Statements

September 30, 2017

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.

(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.

In the government-wide financial statements, bond discounts or premiums are capitalized and amortized over the term of the bonds using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs other than prepaid insurance are reported as expenses.

(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*

During the year ended September 30, 2017, the Nation implemented GASB Statement No. 80, *Blending Requirements for Certain Component Units*, an amendment of GASB Statement No. 14, which amends the blending requirements for the financial statement presentation of component units incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. This statement did not have an impact on the financial statements.

During the year ended September 30, 2017, the Nation implemented GASB Statement No. 77, *Tax Abatement Disclosures*, which establishes financial reporting standards for tax abatement agreements entered into by state and local governments. This statement requires disclosure of tax abatements

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

resulting from both agreements that are entered into by the reporting government and agreements that are entered into by other governments that reduce the reporting government's tax revenues. This provision of this statement should be applied to all state and local governments subject to tax abatement agreements. This statement did not have an impact as the Nation does not offer tax abatements.

During the year ended September 30, 2017, the Nation also implemented GASB Statement No. 82, *Pension Issues, an amendment of GASB Statement No. 67, No. 68, and No. 73*, which amends the definition of covered payroll for pensions reported in required supplemental information. Instead of presenting covered-employee payroll, which is the payroll of employees that are provided with pensions through the pension plan, the required supplementary information will present covered payroll, defined as the payroll on which contributions to a pension plan are based.

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

A summary of cash and investments as of September 30, 2017 is as follows:

Cash, including money market accounts	\$ 351,773,102
Certificates of deposit	5,446,358
Government and federal agency obligations	1,047,208,161
Municipal bonds	7,159,423
Corporate bonds	601,685,849
Corporate obligations	70,564,213
Marketable securities	2,308,377,099
Alternative investments	288,012,282
Mutual funds	240,533,439
High yield fixed income funds	18,646,129
Total cash and investments	\$ <u>4,939,406,055</u>

Government-wide financial statements (Exhibit A):

Cash and cash equivalents	\$ 106,242,779
Investments	972,953,504
Restricted cash and cash equivalents	189,885,105
Restricted investments	2,515,508,101

Fiduciary funds statement of net assets (Exhibit I):

Pension trust funds:	
Cash and cash equivalents	20,005,159
Investments	927,613,224
Private-purpose trust funds:	
Cash and cash equivalents	35,640,059
Investments	171,558,124
	\$ <u>4,939,406,055</u>

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(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, 2017, the Nation's deposits were not exposed to custodial credit risk as uninsured or uncollateralized.

For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty, the Nation will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Nation does not have specific policies regarding investment custodial credit risk. As of September 30, 2017, 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 NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

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, 2017:

Rating	Government and federal agency obligations	Municipal bonds	Corporate bonds	Corporate obligations	High yield fixed income funds	Total
AAA	\$ 2,284,973	64,588	2,897,246	38,950,909	796,190	44,993,906
AA	570,578,385	3,437,058	37,665,557	6,165,974	—	617,846,974
A	610,786	3,657,777	178,213,648	5,415,520	—	187,897,731
BBB	4,334,508	—	355,118,953	3,657,632	648,885	363,759,978
BB	419,870	—	22,926,727	985,796	8,855,046	33,187,439
B	54,025	—	1,821,677	211,741	8,224,808	10,312,251
CCC	—	—	927,284	3,950,543	121,200	4,999,027
D	—	—	—	1,846,208	—	1,846,208
Not rated	—	—	2,114,757	6,729,056	—	8,843,813
U.S. government guaranteed	468,925,614	—	—	2,650,834	—	471,576,448
	<u>\$ 1,047,208,161</u>	<u>7,159,423</u>	<u>601,685,849</u>	<u>70,564,213</u>	<u>18,646,129</u>	<u>1,745,263,775</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.

As of September 30, 2017, 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	\$ 5,446,358	5,446,358	—	—	—
Government and federal agency obligations	1,047,208,161	574,126,606	144,292,057	44,751,618	284,037,880
Municipal bonds	7,159,423	—	1,683,167	3,654,734	1,821,522
Corporate bonds	601,685,849	147,479,271	264,344,857	80,436,617	109,425,104
Corporate obligations	70,564,213	—	19,600,211	5,049,555	45,914,447
High yield fixed income funds	18,646,129	796,190	7,656,101	9,925,334	268,504
	<u>\$ 1,750,710,133</u>	<u>727,848,425</u>	<u>437,576,393</u>	<u>143,817,858</u>	<u>441,467,457</u>

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(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 Asia (EAFE) 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
Argentina	Peso	159,900	—	54,025	—	213,925
Australia	Dollar	1,076,883	—	—	—	1,076,883
Brazil	Real	565,963	—	100,750	—	666,713
Canada	Dollar	17,748,963	5,337,901	135,535	3,755,624	26,978,023
Cayman Islands	Dollar	—	1,502,710	—	—	1,502,710
Chile	Peso	582,861	—	408,940	—	991,801
China	Yuan	2,634,715	—	—	606,266	3,240,981
Colombia	Peso	293,250	—	—	1,190	294,440
EAFE	NA	—	—	—	26,636,128	26,636,128
Europe	Euro	40,221,238	—	1,000,623	389,617,286	430,839,147
Hong Kong	Dollar	199,000	—	—	1,512,162	1,711,162
India	Rupee	903,842	—	—	—	903,842
Indonesia	Rupiah	206,500	—	—	—	206,500
Israel	Shekel	3,020,454	—	201,846	—	3,222,300
Jamaica	Dollar	226,460	—	—	—	226,460
Japan	Yen	1,378,730	—	—	—	1,378,730
Malaysia	Ringgit	612,631	—	—	—	612,631
Mexico	Peso	2,284,120	—	3,706,048	—	5,990,168
Multi-National Agencies						
Region	NA	—	—	1,221,709	—	1,221,709
Norway	Krone	1,203,881	—	—	—	1,203,881
Panama	Balboa	404,300	—	209,500	—	613,800
Peru	Inti	689,220	—	—	—	689,220
Philippines	Peso	—	—	418,960	—	418,960
Singapore	Dollar	454,888	—	—	—	454,888
Qatar	Rial	201,307	—	—	—	201,307
United Arab Emirates	Dirham	51,250	—	—	—	51,250
		<u>75,120,356</u>	<u>6,840,611</u>	<u>7,457,936</u>	<u>422,128,656</u>	<u>511,547,559</u>

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(g) Pledged Securities

As of September 30, 2017, the Nation pledged a \$5,446,358 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, 2017

The Nation has the following recurring fair value measurements as of September 30, 2017:

		Fair value measurement using		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant Unobservable inputs (Level 3)
	Fair value			
Investments held by the Nation:				
Certificates of deposit	\$ 5,446,358	5,446,358	—	—
Governmental and federal agency obligations	1,047,208,161	—	1,047,208,161	—
Municipal bonds	7,159,423	—	7,159,423	—
Corporate bonds	601,685,849	—	601,685,849	—
Corporate obligations	70,564,213	—	70,564,213	—
Mutual funds	240,533,439	240,533,439	—	—
Marketable securities	2,308,377,099	2,308,377,099	—	—
Total investments held by the Nation	\$ 4,280,974,542	2,554,356,896	1,726,617,646	—
	Fair Value	Unfunded commitments	Redemption frequency (if currently eligible)	Redemption notice period
Investments measured at the net asset value (NAV):				
Real estate funds (1)	\$ 288,012,282	—	45 to 90 days	Quarterly
High yield fixed income funds (2)	18,646,129	—	3 days	Daily
Total investments measured at the NAV	306,658,411	\$ —		
Total investments held	\$ 4,587,632,953			

- (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 one investment 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, 2017

(3) Accounts, Claims Settlement, and Notes Receivable

(a) Governmental Accounts Receivable

Accounts receivable from grantors of \$32,855,367 represent the majority of the governmental activities restricted accounts receivable balance at September 30, 2017.

(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, 2017, the principal balance is \$208,571,866.

THE NAVAJO NATION

Notes to Basic Financial Statements

September 30, 2017

The forbearance agreement dated January 9, 2015 resulted in an interest rate reduction to 8% plus a contingent interest of 1% payable from available cash flow. As a result of the interest rate reduction, the consolidated note below recorded actual interest income for fiscal year 2017 of \$17,754,045. Interest income that would have been reported if the note was not restructured would have been \$27,217,921.

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, 2017 is \$3,409,790.

(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, 2017:

	Governmental activities		Fiduciary	
	Restricted	Unrestricted	funds	Total
Notes receivable:				
Permanent Fund	\$ 149,084,393	—	—	149,084,393
Chapter Government Nation				
Building Fund	8,175,749	—	—	8,175,749
Land Acquisition Fund	—	37,324,474	—	37,324,474
Scholarship Funds	5,141,308	—	—	5,141,308
Navajo Rehabilitation Trust Fund	3,409,790	—	—	3,409,790
Handicapped Services Fund	—	—	1,241,928	1,241,928
Senior Citizen Services Fund	—	—	1,065,961	1,065,961
Vocational Education Fund	—	—	1,240,836	1,240,836
Veterans' Trust Fund	—	—	5,297,217	5,297,217
NNGE note receivable	165,811,240	37,324,474	8,845,942	211,981,656
NTUA Key Bank Loan Fund	355,936	—	—	355,936
Sihasin Fund	—	23,120,000	—	23,120,000
Receivable from Grantors:				
Grant Fund	32,855,367	—	—	32,855,367
Accounts receivable:				
General Fund	—	275,315	—	275,315
Grant Fund	152,326	—	—	152,326
Chapter Government Nation				
Building Fund	7,790	—	—	7,790
Office Supply Center	—	282,154	—	282,154
Group Health Self-Insurance Fund	1,175,624	—	—	1,175,624
Property and Casualty Self-Insurance Fund	16,551	—	—	16,551
Workers' Compensation Self-Insurance Fund	119,984	—	—	119,984
	<u>\$ 200,494,818</u>	<u>61,001,943</u>	<u>8,845,942</u>	<u>270,342,703</u>

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(d) Notes 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, 2017, the note balance is \$355,936.

The note receivable in the Sihasin Fund represents a loan to NTUA for the construction of utility infrastructure that was funded during fiscal year 2017. Payments through June 30, 2018 are interest only at 1.16%. As of September 30, 2017, the note balance is \$23,120,000.

(e) Notes Receivable in Business-Type Activity Funds

Notes receivable for business-type activities consist of the following as of September 30, 2017:

Business industrial development fund:

Big business loans	\$ 2,025,687
Small business loans	2,556,594
Micro loan program	<u>145,164</u>
	4,727,445

Less allowance for doubtful notes:

Big business loans	(1,835,714)
Small business loans	(2,456,008)
Micro loans	<u>(133,467)</u>

Business industrial development fund loans, net	<u>302,256</u>
---	----------------

Loan fund:

Home loans	7,080,980
Personal loans	533,024
Veterans' loans	<u>594,625</u>
	8,208,629

Less allowance for doubtful notes:

Home loans	(930,156)
Personal loans	(162,351)
Veterans' loans	<u>(418,557)</u>

Loan fund loans, net	<u>6,697,565</u>
----------------------	------------------

Notes receivable, net	6,999,821
-----------------------	-----------

Less portion due within one year	<u>1,585,847</u>
----------------------------------	------------------

Notes receivable due in more than one year	<u>\$ 5,413,974</u>
--	---------------------

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(4) Capital Assets

A summary of changes in capital assets for the year ended September 30, 2017 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	500,000	—	—	90,981,425
Construction in progress	44,490,785	20,278,224	—	(56,797,038)	7,971,971
Total capital assets not being depreciated	<u>134,972,210</u>	<u>20,778,224</u>	<u>—</u>	<u>(56,797,038)</u>	<u>98,953,396</u>
Capital assets being depreciated:					
Building and improvements	412,696,185	9,215,105	(29,042)	56,797,038	478,679,286
Equipment	82,986,245	2,859,056	(1,099,961)	—	84,745,340
Furniture and fixtures	6,644,569	244,076	—	—	6,888,645
Vehicles	112,386,795	3,880,714	(2,192,757)	—	114,074,752
Total capital assets being depreciated	<u>614,713,794</u>	<u>16,198,951</u>	<u>(3,321,760)</u>	<u>56,797,038</u>	<u>684,388,023</u>
Less accumulated depreciation:					
Building and improvements	94,950,268	11,288,893	(29,042)	—	106,210,119
Equipment	63,013,378	4,084,388	(1,099,960)	—	65,997,806
Furniture and fixtures	3,737,780	760,939	—	—	4,498,719
Vehicles	97,225,367	6,845,047	(2,192,757)	—	101,877,657
Total accumulated depreciation	<u>258,926,793</u>	<u>22,979,267</u>	<u>(3,321,759)</u>	<u>—</u>	<u>278,584,301</u>
Depreciable capital assets, net	<u>355,787,001</u>	<u>(6,780,316)</u>	<u>(1)</u>	<u>56,797,038</u>	<u>405,803,722</u>
Governmental activities, capital assets, net	<u>\$ 490,759,211</u>	<u>13,997,908</u>	<u>(1)</u>	<u>—</u>	<u>504,757,118</u>

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Ending balance</u>
Business-type activities:					
Capital assets not being depreciated:					
Construction in progress	\$ 3,164,606	1,475,242	—	(4,094,210)	545,638
Land and land development costs	<u>739,419</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>739,419</u>
Total capital assets not being depreciated	<u>3,904,025</u>	<u>1,475,242</u>	<u>—</u>	<u>(4,094,210)</u>	<u>1,285,057</u>
Capital assets being depreciated:					
Buildings and improvements	22,903,957	41,964	(102,393)	4,094,210	26,937,738
Equipment	<u>1,776,478</u>	<u>262,839</u>	<u>—</u>	<u>—</u>	<u>2,039,317</u>
Total depreciable capital assets	<u>24,680,435</u>	<u>304,803</u>	<u>(102,393)</u>	<u>4,094,210</u>	<u>28,977,055</u>
Less accumulated depreciation for:					
Buildings	9,072,973	520,901	(9,020)	—	9,584,854
Equipment	<u>1,217,323</u>	<u>34,495</u>	<u>—</u>	<u>—</u>	<u>1,251,818</u>
Total accumulated depreciation	<u>10,290,296</u>	<u>555,396</u>	<u>(9,020)</u>	<u>—</u>	<u>10,836,672</u>
Depreciable capital assets, net	<u>14,390,139</u>	<u>(250,593)</u>	<u>(93,373)</u>	<u>4,094,210</u>	<u>18,140,383</u>
Business-type activities, capital assets, net	<u>\$ 18,294,164</u>	<u>1,224,649</u>	<u>(93,373)</u>	<u>—</u>	<u>19,425,440</u>

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

Depreciation expense was charged to functions as follows:

Governmental activities:

General government	\$ 5,588,926
Economic development and planning	107,372
Community and rural development	12,505,457
Education and training	283,142
Natural resources	931,068
Public safety	350,680
Health and welfare	210,695
Culture and recreation	8,529
Internal service funds	<u>2,993,398</u>
Total governmental activities depreciation expense	<u><u>\$ 22,979,267</u></u>

Business-type activities:

Business and Industrial Development Fund	\$ 408,509
Parks and Recreation	101,533
Fish and Wildlife	173
Employee Housing	30,226
Livestock Custody Fund	9,195
Tribal Ranch Fund	<u>5,760</u>
Total business-type activities depreciation expense	<u><u>\$ 555,396</u></u>

(5) Interfund Activity

The composition of interfund activity as of September 30, 2017 is as follows:

<u>Receivable fund</u>	<u>Payable fund</u>	<u>Purpose</u>	<u>Amount</u>
General Fund	Grant Fund	Grant expenditures	\$ <u>18,966,174</u>
			<u><u>\$ 18,966,174</u></u>

At September 30, 2017, the following funds have deficit net positions, as follows:

<u>Fund</u>	<u>Cash and cash equivalents</u>	<u>Net position</u>
Air Transportation Fund	\$ (2,933,302)	1,589,738
Navajo Trust Fund	(92,393)	92,393
Fourth of July Celebration Fund	(90,226)	116,744
Group Health Fund	1,021,065	13,759,945

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

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	Parks and Recreation Fund	Historical Trust Asset Mismanagement Litigation Trust Fund	Permanent 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	793,399	—	—	—	793,399	Operating
Sihasin Fund	1,500,000	—	—	—	1,500,000	Infrastructure
Air Transportation Fund	543,050	—	—	—	543,050	Operating
Contingency Management Fund	3,337,255	—	—	—	3,337,255	Provide support
Archaeology Fund	2,091,101	—	—	—	2,091,101	Close fund
General Fund	—	—	1,334,613	10,881,000	12,215,613	Close fund; Provide support
Annual Navajo Nation Fair	—	1,628,749	—	—	1,628,749	Provide support
Total	\$ 12,264,805	1,628,749	1,334,613	10,881,000	26,109,167	

The Historical Trust Asset Mismanagement Litigation Trust Fund (General Fund) and the Archaeology Fund were closed and transferred to the General Fund during 2017.

(6) Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities as of September 30, 2017 are as follows:

	Vendors	Salaries and benefits	Construction contract payables	Other	Total
Governmental activities:					
General Fund	\$ 43,741,073	8,495,219	401,637	3,883,736	56,521,665
Grant Fund	7,426,161	6,083,617	531,741	—	14,041,519
Permanent Fund	7,352,808	7,058	578,665	—	7,938,531
Aggregate nonmajor funds	2,446,299	455,634	1,376,837	123,460	4,402,230
Internal service funds	453,815	224,276	—	1,930,411	2,608,502
Total governmental activities	\$ 61,420,156	15,265,804	2,888,880	5,937,607	85,512,447
Business-type activities:					
Enterprise funds	\$ 763,268	188,703	29,019	207,959	1,188,949

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(7) Long-Term Liabilities

The Nation has two outstanding notes payable as of September 30, 2017. 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)	\$ 476,117
Note payable to bank – 3.683% and 2.432% (FMIS)	<u>4,022,263</u>
Total payable	<u>\$ 4,498,380</u>

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
NTUA:			
2018	\$ 476,117	2,270	478,387
	<u>\$ 476,117</u>	<u>2,270</u>	<u>478,387</u>
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
FMIS:			
2018	\$ 891,326	91,418	982,744
2019	914,063	68,681	982,744
2020	937,389	45,355	982,744
2021	961,321	21,423	982,744
2022	<u>318,164</u>	<u>1,716</u>	<u>319,880</u>
	<u>\$ 4,022,263</u>	<u>228,593</u>	<u>4,250,856</u>

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 2.432% and a taxable fixed rate of 3.683%. The loan requires monthly payments, which total \$81,895. The final payment is due January 1, 2022.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

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					
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			3,110,000	1,980,000	5,090,000
2023–2027			17,740,000	7,716,650	25,456,650
2028–2032			17,845,000	2,519,275	20,364,275
		\$	<u>50,290,000</u>	<u>20,820,544</u>	<u>71,110,544</u>

Changes in long-term liabilities for the year ended September 30, 2017 were as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Governmental activities:					
Notes payable	\$ 6,308,349	—	1,809,969	4,498,380	1,367,443
Bonds payable	50,290,000	—	—	50,290,000	2,775,000
Bond premium	2,323,750	—	223,710	2,100,040	223,710
Compensated absences	14,216,516	13,711,782	13,668,646	14,259,652	13,668,646
Net pension liability	176,639,372	88,252,972	85,914,762	178,977,582	—
Claims and judgments	11,878,642	47,529,064	39,363,505	20,044,201	16,204,041
Governmental activities long-term liabilities	<u>\$ 261,656,629</u>	<u>149,493,818</u>	<u>140,980,592</u>	<u>270,169,855</u>	<u>34,238,840</u>

THE NAVAJO NATION

Notes to Basic Financial Statements

September 30, 2017

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Business-type activities:					
Compensated absences	\$ 191,034	194,464	204,894	180,604	180,604
Net pension liability	3,451,215	1,500,740	1,753,461	3,198,494	—
Business-type activities long-term liabilities	\$ 3,642,249	1,695,204	1,958,355	3,379,098	180,604

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), which 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.

The Nation has implemented GASB Statement No. 67, which specified the required approach to measuring the pension liability and 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.

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

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

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

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

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, 2017.

Plan Description

The Nation has established an agent, single-employer defined-benefit retirement plan (the 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, 2017, the Nation reported the following membership in the Plan:

	<u>Total</u>
Retired participants	\$ 4,661
Terminated vested participants	4,549
Active participants	<u>3,791</u>
Total covered employees	\$ <u>13,001</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, 2017, the required contribution rate approximated 25.5% of covered payroll.

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

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

THE NAVAJO NATION

Notes to Basic Financial Statements

September 30, 2017

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, 2017. Separate valuations were performed by the Nation's actuary to calculate the total pension liability in accordance with this standard for financial reporting by the pension plan and calculates the net pension liability. The plan elected to base the valuations on plan data as of October 1, 2016 and used update procedures to roll forward the total pension liability to the pension plan's fiscal year-end of September 30, 2017. 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.

(a) 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, 2017) and for the Nation's reporting period (the fiscal year ended September 30, 2017). 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, 2017, 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, 2017 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, 2016, to the measurement date of September 30, 2017.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(b) Net Pension Liability

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

		Increase (decrease)	
	Total pension liability	Plan fiduciary net position	Net pension liability
	(a)	(b)	(a) – (b)
Balance at September 30, 2016	\$ 923,381,846	742,374,586	181,007,260
Changes for the year:			
Service cost	13,779,940	—	13,779,940
Interest	63,373,733	—	63,373,733
Differences between expected and actual experience	2,672,668	—	2,672,668
Contributions – employer	—	42,919,726	(42,919,726)
Investment income (loss) net of investment expense	—	98,507,301	(98,507,301)
Benefit payments, including refunds of employee contributions	(36,706,419)	(36,706,419)	—
Administrative expenses	—	(1,521,159)	1,521,159
Other changes	61,633,717	—	61,633,717
Net changes	<u>104,753,639</u>	<u>103,199,449</u>	<u>1,554,190</u>
Balance at September 30, 2017	\$ <u>1,028,135,485</u>	<u>845,574,035</u>	<u>182,561,450</u>

Additional information regarding the changes in the net pension liability for the year ended September 30, 2017 can be found in the Required Supplementary Information immediately following these notes to the financial statements.

(c) 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, 2017

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, 2017, the Nation reported the following deferred pension outflows of resources and deferred inflows of resources:

<u>Source</u>	<u>Deferred outflows of resources</u>	<u>Deferred inflows of resources</u>
Differences between expected and actual experience	\$ 2,084,502	—
Changes of assumptions	38,575,837	—
Net differences between projected and actual earnings on plan investments	—	(31,421,682)
Total	<u>\$ 40,660,339</u>	<u>(31,421,682)</u>

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

<u>Year ending September 30</u>	<u>Amount</u>
2018	\$ 20,599,191
2019	12,320,596
2020	(14,405,202)
2021	(9,275,928)
Total	<u>\$ 9,238,667</u>

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(d) 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, 2017, is as follows:

Service cost	\$ 13,779,940
Interest on the total pension liability	63,373,733
Differences between expected and actual experience	2,827,206
Changes of assumptions	23,057,882
Employee contributions	—
Projected earnings on pension plan investments	(52,127,669)
Differences between projected and actual earnings on plan investments	(3,870,277)
Pension plan administrative expense	1,521,159
Other changes in fiduciary net position	—
Total pension expense	\$ 48,561,974

THE NAVAJO NATION

Notes to Basic Financial Statements

September 30, 2017

(e) 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, 2017. 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	6.4%
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.
Change of assumption	Based on review of plan performance, the discount rate was changed from 7% to 6.4%.
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, 2017 can be found in the Other Supplementary Information (Unaudited) section immediately following these notes to the financial statements.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

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, 2017 (see the discussion of the pension plan's investment policy):

Asset class	Target allocation	Long-term expected real rate of return
Domestic equity	41.00 %	7.18 %
International equity	12.00	8.85
Fixed income	22.00	4.31
Real estate	10.00	6.89
Global tactical asset allocation	15.00	6.25

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 2.5%.

(f) Discount Rate

The discount rate used to measure the total pension liability was 6.4%. 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, 2017 was – 13.24%. 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, 2017

(g) 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:

	<u>1 percentage decrease (5.4%)</u>	<u>Current discount rate (6.4%)</u>	<u>1 percentage increase (7.4%)</u>
Nation's net pension liability	\$ 300,691,599	182,561,450	83,171,781

(h) 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 \$2,540,937 and employee contributions were \$6,205,256 for the year ended September 30, 2017.

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

During 1978, the Navajo Tribal Code (the 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, 2017 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, 2017 has been 3%.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(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, 2017 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, 2017 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, 2017 is 5%.

A majority of registered voters of any governance-certified chapter may enact an ordinance imposing an additional tax rate in addition to the rate approved by the Navajo Tax Commission. This additional rate may be from 0.25% to 4%.

(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, 2017 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, 2017 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, 2017

(i) *Alcohol Tax*

Effective October 1, 2015, a tax was imposed on any retailer or distributor of alcohol products within the Nation. The funds are to be used to improve public safety. The annual tax rate shall not be less than 2% or more than 6%. The rate in effect from the imposition of the tax through September 30, 2017 was 3.25%.

Tax revenues for the year ended September 30, 2017 are summarized as follows:

	General Fund	Navajo Tourism Fund	Navajo Roads Fund	Healthy Dine Act Fund	DPS-Alcohol Tax Fund	Tax Suspense Fund	Total
Business activity tax	\$ 6,463,015	—	—	—	—	131,898	6,594,913
Possessory interest tax	25,815,784	—	—	—	—	526,853	26,342,637
Fuel excise tax	—	—	10,870,556	—	—	221,848	11,092,404
Oil and gas severance tax	4,446,997	—	—	—	—	90,755	4,537,752
Sales tax	45,550,651	—	—	—	—	1,142,329	46,692,980
Tobacco products tax	542,009	—	—	—	—	11,061	553,070
Hotel occupancy tax	—	1,524,696	—	—	—	31,116	1,555,812
Junk food tax	—	—	—	1,844,336	—	37,640	1,881,976
Alcohol tax	64,106	—	—	—	89,761	3,140	157,007
Total tax revenue	\$ 82,882,562	1,524,696	10,870,556	1,844,336	89,761	2,196,640	99,408,551

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 \$10,423,469 in tax revenue for the year ended September 30, 2017.

(10) *Commitments and Contingent Liabilities*

The following are the significant financial commitments and contingent liabilities of the Nation at September 30, 2017, 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 \$130,910.

(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

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

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.

(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, 2017, premiums of \$2,492,494 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, 2017

The amounts and changes in the Nation's Risk Management program claims payable for the years ended September 30, 2017 and 2016 are as follows:

	<u>2017</u>	<u>2016</u>
Property and Casualty Self-Insurance (Risk Management)		
Fund:		
Claims payable, beginning of year	\$ 1,882,486	1,723,714
Current year claims and changes in estimates	3,137,667	1,649,744
Claim payments	<u>(2,619,726)</u>	<u>(1,490,972)</u>
Claims payable, end of year	<u>\$ 2,400,427</u>	<u>1,882,486</u>
Workers' Compensation Self-Insurance Fund:		
Claims payable, beginning of year	\$ 303,614	422,942
Current year claims and changes in estimates	2,348,649	1,609,264
Claim payments	<u>(2,348,649)</u>	<u>(1,728,592)</u>
Claims payable, end of year	<u>\$ 303,614</u>	<u>303,614</u>
Group Health Benefit Self-Insurance Fund:		
Claims payable, beginning of year	\$ 8,700,000	6,380,000
Current year claims and changes in estimates	38,976,383	33,788,129
Claim payments	<u>(34,176,383)</u>	<u>(31,468,129)</u>
Claims payable, end of year	<u>\$ 13,500,000</u>	<u>8,700,000</u>

(13) Extraordinary Item – Claim Settlement

The Indian Self-Determination and Education Assistance Act directs the Secretary of the Interior to enter into contracts with willing tribes under which they will provide services such as education and law enforcement that the Federal Government otherwise would have provided. It requires the Secretary to contract to pay the "full amount" of "contract support costs," 45 U. S. C. §§450j–1(a)(2), (g), subject to the availability of appropriations, §450j–1(b). In the event of a contractual breach, tribal contractors are entitled to seek money damages under the Contract Disputes Act.

In Fiscal Years (FYs) 1994 to 2001, respondent Tribes contracted with the Secretary to provide services. During each of those FYs, Congress appropriated sufficient funds to pay any individual tribal contractor's contract support costs in full but did not appropriate enough to pay all tribal contractors collectively. Unable to pay every contractor in full, the Secretary paid the Tribes on a uniform, pro rata basis. Respondents sued under the Contract Disputes Act for breach of contract. The District Court granted the Government summary judgment. The Tenth Circuit reversed, finding the Government liable to each contractor for the full contract amount.

On August 15, 2016, the United States announced a settlement resolving these claims in the amount of \$862 million payable to 699 tribal governments and organizations. In 2017, the Navajo Nation received \$58.4 million, which represents their share of the settlement.

THE NAVAJO NATION
Notes to Basic Financial Statements
September 30, 2017

(14) Subsequent Event

In October 2017, the Nation purchased the 16,000 acre Wolf Springs Ranch located in Huferfano and Custer Counties, Colorado for approximately \$22.7 million. In December 2017, the Nation purchased the 11,000 acre Boyer Ranch located in Custer County, Colorado for approximately \$7.5 million. In February 2018, the Budget and Finance Committee created the Colorado Ranch Fund, an enterprise fund, to administer and account for the usage of these lands.

In October 2017, the Nation Council approved a resolution petitioning the U.S. Secretary of the Interior to issue a federal charter of incorporation to the Nation to form the Naat'aanii Development Corporation, as a for-profit company under the Indian Reorganization Act, 25 U.S.C. 5126.

In November 2017, the Nation initiated to amend and restate the loan agreement with NNGE for an amount up to the outstanding principal amount but not to exceed \$208,759,393. The maturity of the note is 15 years after the effective date of December 1, 2017 with an option to renew for an additional 15 years. The interest rate of the loan will be a fixed rate of the 10-year gross annual average return of the Master Trust to be reset every ten years. The interest will be payable quarterly beginning December 1, 2017. Debt service will be based on a 30-year amortization schedule, commencing January 15, 2018.

THE NAVAJO NATION

General Fund

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

Year ended September 30, 2017

Revenues	Original budget	Final budget	Actual (budgetary basis)	September 30, 2017 Designated fund balance carryover	Budget variance favorable (unfavorable)
Natural resource revenue:					
Oil and gas	\$ 24,700,000	24,700,000	24,302,755	—	(397,245)
Mining	55,850,000	55,850,000	57,300,075	—	1,450,075
Tax revenue, net (note 10)	64,150,000	64,150,000	82,882,562	—	18,732,562
Land, buildings, business site, and right-of-way revenue	58,450,000	58,450,000	60,207,178	—	1,757,178
Interest and dividends	1,600,000	1,600,000	6,235,522	—	4,635,522
Net decrease in fair value of investments	—	—	(1,085,696)	—	(1,085,696)
Other revenue	900,000	900,000	1,703,218	—	803,218
Transfer to permanent fund	(24,678,000)	(24,678,000)	(27,785,474)	—	(3,107,474)
Transfer of current year revenues (expenses)	(27,539,000)	(27,539,000)	(28,833,351)	—	(1,294,351)
Total revenues	<u>153,433,000</u>	<u>153,433,000</u>	<u>174,926,789</u>	<u>—</u>	<u>21,493,789</u>
Expenditures					
General government	91,429,757	118,123,193	62,758,351	18,153,847	37,210,995
Economic development and planning	5,247,869	5,969,976	4,516,061	284,933	1,168,982
Community and rural development	39,333,781	44,373,974	43,616,122	2,413,385	(1,655,533)
Education and training	21,617,156	24,183,730	22,140,291	1,070,891	972,548
Natural resources	19,008,992	20,989,897	17,577,085	14,741,545	(11,328,733)
Public safety	9,677,875	10,207,721	8,993,140	829,298	385,283
Health and welfare	16,456,913	23,687,226	16,456,780	2,534,510	4,695,936
Culture and recreation	1,076,523	1,100,346	1,048,441	419,928	(368,023)
Total expenditures	<u>203,848,866</u>	<u>248,636,063</u>	<u>177,106,271</u>	<u>40,448,337</u>	<u>31,081,455</u>
Other financing sources (uses)					
Transfers	(4,000,000)	(4,000,000)	(49,192)	—	3,950,808
Total other financing uses	<u>(4,000,000)</u>	<u>(4,000,000)</u>	<u>(49,192)</u>	<u>—</u>	<u>3,950,808</u>
Extraordinary Item					
Claim settlement	—	—	58,413,809	—	58,413,809
Total extraordinary item	<u>—</u>	<u>—</u>	<u>58,413,809</u>	<u>—</u>	<u>58,413,809</u>
Net change under budgetary basis	\$ <u>(54,415,866)</u>	<u>(99,203,063)</u>	<u>56,185,135</u>	<u>(40,448,337)</u>	<u>114,939,861</u>
Reconciliation of budgetary basis net change to net change from schedule 6:					
Less beginning encumbrances			\$ (12,228,328)		
Add ending encumbrances			7,271,105		
Modified accrual budget net change in fund balance			\$ <u>51,227,912</u>		

See accompanying independent auditors' report.

THE NAVAJO NATION

Pension Other Supplementary Information

Year ended September 30, 2017

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

	2017	2016	2015	2014	2013	2012	2011
Total pension liability:							
Service cost	\$ 13,780	13,297	12,939	14,222			
Interest	63,374	60,576	57,582	54,812			
Charges of benefit terms	—	—	302	5,300			
Differences between expected and actual experience	2,672	1,507	4,911	—			
Changes of assumptions	61,633	—	—	—			
Benefit payments, including refunds of member contributions	(36,706)	(34,170)	(31,180)	(28,415)			
Net change in total pension liability	104,753	41,210	44,554	45,919			
Total pension liability – beginning	923,382	882,172	837,618	791,699			
Total pension liability – ending (a)	1,028,135	923,382	882,172	837,618			
Plan fiduciary net position:							
Contributions – employer	42,920	46,473	49,975	47,750			
Contributions – member	—	—	—	—			
Net investment income	98,506	72,162	(6,703)	63,712			
Benefit payments, including refunds of member contributions	(36,706)	(34,170)	(31,179)	(28,415)			
Administrative expense	(1,521)	(1,092)	(1,157)	(1,114)			
Other	—	—	—	—			
Plan fiduciary net position – beginning	103,199	83,373	10,936	81,933			
Plan fiduciary net position – ending (b)	742,375	659,002	648,066	566,133			
Nation's net pension liability – ending (a) – (b)	845,574	742,375	659,002	648,066			
Plan fiduciary net position as a percentage of the total pension liability	182,561	181,007	223,170	189,552			
Covered-employee payroll	82.24%	80.40%	74.70%	77.37%			
Nation's net pension liability as a percentage of covered-employee payroll	173,182	171,504	168,042	179,682			
	\$ 105.42%	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.

Change of Assumptions: Based on a review of the plan performance the discount rate was changed from 7% to 6.4% for the fiscal year 2017 valuation.

See accompanying independent auditors' report.

THE NAVAJO NATION

Pension Other Supplementary Information

Year ended September 30, 2017

Schedule of the Nation's Contributions (dollars in thousands) –
(Unaudited Other Supplementary Information)

Fiscal year ended	Actually determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered- employee payroll	Contributions as a percentage of covered- employee payroll
2017	44,229	42,920	1,309	173,182	25 %
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					

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

Notes to schedule:

Valuation date:

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

Methods and assumptions used to determine contribution rates:

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

Actuarial assumptions:

Inflation
Salary increases
Investment rate of return
Retirement ageGroup-specific rates based on age ranging from 45–65, with 100% by 65 for regular
employees, 100% by age 55 for commissioned law enforcement and 100% by age 55 or upon
15 years of service as a judge.

Mortality:

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

See accompanying independent auditors' report.

THE NAVAJO NATION

Pension Other Supplementary Information

Year ended September 30, 2017

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

<u>Fiscal year ended</u>	<u>Annual money-weighted rate of return, net of investment expense</u>
2017	13.24
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	

See accompanying independent auditors' report.

THE NAVAJO NATION
Combining Balance Sheet – General Fund
Modified Accrual Budget Basis
September 30, 2017

	General Fund	Navajo Dam Escrow Fund	Oil and Gas Development Fund	Navajo Nation Reforestation Fund	Capital Outlay Match Fund	Historical Trust Asset Mismanagement Litigation Trust Fund	Sihasin Fund	License Plate Revenue Fund	Total General Funds
Assets									
Cash and cash equivalents	\$ 6,359,059	3,256,593	788,860	444,005	(66,437)	—	7,782,756	514,590	19,079,426
Investments (including \$5,446,358 of pledged securities)	186,317,911	—	—	—	17,378,204	—	522,974,055	—	726,670,170
Accounts receivable, net	275,315	—	—	—	—	—	—	—	275,315
Accrued interest receivable	2,557,445	6,534	1,638	—	33,902	—	1,232,557	—	3,832,076
Note receivable	—	—	—	—	—	—	23,120,000	—	23,120,000
Due from other funds	18,966,174	—	—	—	—	—	—	—	18,966,174
Restricted assets	505,849	—	—	—	—	—	—	—	505,849
Other assets	—	—	—	—	—	—	5,450,268	—	5,450,268
Total assets	\$ 214,981,753	3,263,127	790,498	444,005	17,345,669	—	560,559,636	514,590	797,899,278
Liabilities and Fund Balances									
Liabilities:									
Accounts payable	\$ 6,472,338	—	—	—	—	—	36,572,247	—	43,044,585
Accrued liabilities	13,306,208	—	—	5,985	164,887	—	—	—	13,477,080
Unearned revenue	2,325,730	—	—	—	—	—	—	—	2,325,730
Total liabilities	22,104,276	—	—	5,985	164,887	—	36,572,247	—	58,847,395
Fund balances:									
Spendable:									
Nonspendable:	—	—	—	—	—	—	23,120,000	—	23,120,000
Long-term receivables	—	—	—	—	—	—	—	—	—
Restricted for:									
Restricted assets	505,849	—	—	—	—	—	—	—	505,849
Economic development loans	5,446,358	3,263,127	—	—	—	—	—	—	8,709,485
Committed for:									
Other capital projects	17,469,404	—	—	—	17,180,782	—	500,867,389	—	535,517,575
Other purposes	98,592,146	—	790,498	438,020	—	—	—	514,590	100,335,254
Assigned to:									
Other purposes	7,271,105	—	—	—	—	—	—	—	7,271,105
Unassigned	—	—	—	—	—	—	—	—	—
General Fund	63,592,615	—	—	—	—	—	—	—	63,592,615
Total fund balances	192,877,477	3,263,127	790,498	438,020	17,180,782	—	523,987,389	514,590	739,051,883
Total liabilities and fund balances	\$ 214,981,753	3,263,127	790,498	444,005	17,345,669	—	560,559,636	514,590	797,899,278

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, 2017

	General Fund	Navajo Dam Escrow Fund	Oil and Gas Development Fund	Navajo Nation Reforestation Fund	Capital Outlay Match Fund	Historical Trust Asset Mismangement Litigation Trust Fund	Shasin Fund	License Plate Revenue Fund	Total General Funds
Revenues									
Natural resource revenue:									
Oil and gas	\$ 24,302,755	—	—	—	—	—	—	—	24,302,755
Mining	57,300,075	—	—	—	—	—	—	—	57,300,075
Tax revenue, net	82,882,562	—	—	—	—	—	—	—	82,882,562
Land, buildings, business site, and right-of-way revenue	60,207,178	—	—	—	—	—	—	—	60,207,178
Interest and dividends	6,235,522	10,742	4,396	—	109,052	—	14,700,022	—	21,059,734
Net increase (decrease) in fair value of investments	(1,085,696)	—	—	—	—	—	40,911,748	—	39,826,052
Other revenue	1,703,218	—	—	128,632	—	—	13,646,114	37,502	15,515,466
Statutory allocation to permanent fund	(27,785,474)	—	—	—	—	—	—	—	(27,785,474)
Statutory allocation of current year revenues	(28,833,351)	—	—	—	—	—	—	—	(28,833,351)
Total revenues	174,926,789	10,742	4,396	128,632	109,052	—	69,257,884	37,502	244,474,987
Expenditures									
Current:									
General government	58,126,897	—	—	—	—	—	1,459,202	—	59,586,099
Economic development and planning	4,354,907	—	—	—	—	—	—	—	4,354,907
Community and rural development	42,581,411	—	—	—	—	—	75,316,803	—	117,898,214
Education and training	21,415,406	—	—	—	—	—	—	—	21,415,406
Natural resources	17,356,000	—	—	114,401	—	—	—	—	17,470,401
Public safety	9,051,488	—	—	—	—	—	—	—	9,051,488
Health and welfare	18,312,692	—	—	—	—	—	—	—	18,312,692
Culture and recreation	1,063,327	—	—	—	—	—	—	—	1,063,327
Capital outlay	8,932,202	—	—	30,500	692,648	—	—	—	9,655,350
Debt service – principal	869,164	—	—	—	—	—	—	—	869,164
Total expenditures	182,063,494	—	—	144,901	692,648	—	76,776,005	—	259,677,048
Excess (deficit) of revenues over (under) expenditures	(7,136,705)	10,742	4,396	(16,269)	(583,596)	—	(7,518,121)	37,502	(15,202,051)
Other Financing Sources (Uses)									
Transfers	(49,192)	—	—	—	2,000,000	(1,334,613)	1,500,000	—	2,116,195
Total other financing sources (uses)	(49,192)	—	—	—	2,000,000	(1,334,613)	1,500,000	—	2,116,195
Extraordinary item									
Claim settlement	58,413,809	—	—	—	—	—	—	—	58,413,809
Total extraordinary item	58,413,809	—	—	—	—	—	—	—	58,413,809
Net change in fund balances (Exhibit E)	51,227,912	10,742	4,396	(16,269)	1,416,404	(1,334,613)	(6,018,121)	37,502	45,327,953
Fund balance, beginning of year	141,649,565	3,252,385	786,102	454,289	15,764,378	1,334,813	530,005,510	477,088	693,723,930
Fund balance, end of year	\$ 192,877,477	3,263,127	790,498	438,020	17,180,782	—	523,987,389	514,590	739,051,883

See accompanying independent auditors' report.

Assets	Special revenue										Judicial		Dist Street			Permanent Charges
	Scholarship Fund	Nature Tourism Fund	Nature Protection Agency Fund	Tax Suspend Fund	Water Rights Fund	Land Acquisition Fund	Neuro Rehabilitation Trust Fund	Comp Development Fund	Game Distribution Fund	Public Facilities Fund	DPS Gaming Fund	DPS Alcohol Tax Fund	Healthy Diet Tax Fund	PMS Key Bank Loan Fund	NTUA Key Bank Loan Fund	
\$ 19,758,867	\$ 53,529	\$ 513,008	\$ 3,951,468	\$ 2,226,215	\$ 6,922,521	\$ 5,317,538	\$ 5,418,223	\$ 10,282,251	\$ 3,535,899	\$ 44,931,769	\$ 2,712,681	\$ 73,604	\$ 1,725,914	\$ 4,268,815	\$ 155,003	\$ 2,848,373
Car and equipment	6,054,963	2,380,464	48,964,434	2,881,992	4,721,176	135,951,709	27,679,756	—	—	61,925,697	—	—	—	—	—	59,684,439
Buildings	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	51,125,020
Auto and other vehicle	216,813	8,350	20,445	483	9,297	768,972	11,276	—	—	173,949	—	—	—	—	—	351,825
Auto and other vehicle	5,161,328	—	—	—	—	37,324,474	3,409,780	—	—	—	—	—	—	—	359,936	8,175,749
Auto and other vehicle	8,390	20,445	—	483	9,297	93,843	3,421,016	—	—	173,949	—	—	—	—	359,936	8,175,749
Auto and other vehicle	5,355,321	—	—	—	—	38,083,446	8,839,249	—	—	173,949	—	—	—	—	359,936	8,175,749
Auto and other vehicle	72,021,442	6,16,872	55,833,917	5,469,941	10,956,688	179,346,603	34,602,020	10,282,251	3,535,899	17,167,677	2,712,681	73,604	1,725,914	4,268,815	155,033	70,964,439
Auto and other vehicle and equipment	\$ 8,832	4,661	35,166	—	228,136	263,547	4,964	322,914	22,060	2,344,838	461,658	—	32,136	39,334	—	114,602
Auto and other vehicle	8,832	4,661	35,166	—	228,136	263,547	4,964	322,914	22,060	2,344,838	461,658	—	32,136	39,334	—	114,602
Auto and other vehicle	5,161,328	—	—	—	—	37,324,474	3,409,780	—	—	—	—	—	—	—	—	59,280,191
Auto and other vehicle	91,238,047	—	46,283,592	—	—	—	5,424,405	—	—	—	1,725,923	—	—	—	—	8,175,749
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940	14,823,039	—	—	—	4,232,461	—	4,333,882
Auto and other vehicle	5,584,199	8,112,221	9,475,159	5,889,344	11,660,552	14,676,972	—	9,954,367	3,513,940							

THE NAVAJO NATION

Governing Statement of Revenues, Expenditures and Changes in Fund Balances

have major Governmental & its

Mordvin Arkival Bridge Blues

Year ended September 30, 2017

[illegible]

See also on partying: *receptions* (13) (14), *exp. art.*

THE NAVAJO NATION
Combining Statement of Net Position
Enterprise Funds
Modified Accrual Budget Basis
September 30, 2017

Business and Industrial Development Fund														
Assets and Deferred Outflow of Resources														
	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	Veterinary Medical Sales Fund	Total	
Current assets														
Cash and cash equivalents	3,068,969	708,808	—	34,077,552	1,882,370	127,863	225,725	594,378	(90,226)	1,785,820	1,258,103	—	—	65,599,888
Investments	7,793,608	—	—	—	—	—	—	—	—	—	—	—	—	12,609,409
Receivables	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Accrued interest receivable, net	18,986	—	—	—	—	—	—	—	—	—	—	—	—	27,071
Accounts receivable	—	—	—	—	—	—	—	—	—	—	326,953	—	—	326,953
Accounts receivable, net	—	—	—	—	—	—	—	—	—	—	—	—	—	1,585,847
Current portion of notes receivable	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Total receivables	1,451,802	—	—	—	—	—	—	—	—	—	326,953	—	—	1,939,871
Total current assets	12,373,375	708,808	—	34,077,552	1,882,370	127,863	225,725	594,378	(90,226)	1,785,820	1,585,056	—	—	83,119,168
Noncurrent assets														
Reservables	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Notes receivable, net	5,205,763	—	—	—	—	—	—	—	—	—	—	—	—	5,413,974
Total noncurrent assets	5,205,763	—	—	—	—	—	—	—	—	—	—	—	—	5,413,974
Capital assets														
Construction in progress	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Land and land development costs	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Buildings	—	2,535,088	—	6,899,350	78,705	—	—	—	—	—	—	—	—	739,419
Equipment	—	89,912	—	1,186,963	94,280	—	113,484	81,910	—	—	274,604	—	—	2,039,317
Total capital assets	—	2,625,010	—	8,086,313	171,045	—	113,484	81,910	—	—	274,604	—	—	30,262,112
Accumulated depreciation	—	2,402,833	—	1,447,095	87,963	—	113,484	43,553	—	—	237,758	—	—	10,836,672
Capital assets, net	—	19,177	—	5,539,207	83,082	—	—	38,357	—	—	36,846	—	—	19,425,440
Total noncurrent assets	5,205,763	19,177	—	5,539,207	83,082	—	—	38,357	—	—	36,846	—	—	24,839,414
Person-related outflows	72,443	77,221	—	964,769	114,095	—	—	—	—	14,265	57,753	—	—	772,372
Total deferred outflow of resources	72,443	77,221	—	964,769	114,095	—	—	—	—	14,265	57,753	—	—	772,372
Total assets	17,651,581	805,206	—	41,581,628	2,079,557	127,863	225,725	637,735	36,226	1,800,105	1,678,655	—	—	105,670,936
Liabilities, Deferred Inflow of Resources and Net Position														
Current liabilities														
Accounts payable	318,458	64,085	—	121,255	101,228	—	—	1,951	1,914	39,435	7,981	59	—	660,126
Current portion of compensated absences	24,884	22,418	—	90,551	13,912	—	—	—	—	14,885	8,434	—	—	180,604
Accrued liabilities	61,610	29,862	—	140,535	11,544	—	—	7,486	24,604	162,308	67,908	—	—	628,823
Total current liabilities	404,950	107,365	—	352,341	126,684	—	—	9,437	26,518	216,628	84,323	59	—	1,369,553
Noncurrent liabilities														
Net pension liability	325,285	346,717	—	1,637,780	512,277	—	—	—	—	64,140	259,306	—	—	3,198,494
Total noncurrent liabilities	325,285	346,717	—	1,637,780	512,277	—	—	—	—	64,140	259,306	—	—	3,198,494
Total liabilities	730,235	454,082	—	1,990,121	638,961	—	—	9,437	26,518	280,768	343,629	59	—	4,568,047
Person-related inflows	55,983	59,676	—	281,887	88,171	—	—	—	—	11,039	44,631	—	—	550,511
Total deferred inflows of resources	55,983	59,676	—	281,887	88,171	—	—	—	—	11,039	44,631	—	—	550,511
Net position														
Net investment in capital assets	—	19,177	—	6,839,307	83,082	—	—	38,357	—	—	36,846	—	—	19,425,440
Unrestricted	16,865,383	272,251	—	32,770,313	1,289,233	127,863	225,725	594,941	(116,744)	1,508,208	1,254,949	(59)	—	81,120,935
Total net position	16,865,383	291,426	—	39,409,620	1,372,425	127,863	225,725	633,298	(116,744)	1,508,208	1,291,395	(59)	—	100,552,396
Total liabilities and total deferred inflows and net position	17,651,581	805,206	—	41,581,628	2,079,557	127,863	225,725	637,735	36,226	1,800,105	1,678,655	—	—	105,670,936

See accompanying independent auditor's report.

THE NAVAJO NATION

Combining Statement of Revenues, Expenses, and Charges in Net Position

Enterprise Funds

Modified Accrual Budget Basis

Year ended September 30, 2017

	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	Veterinary Medical Sales Fund	Total
Operating revenues														
Rental income	\$ 1,268,433	—	942,625	—	19,610	—	—	—	—	—	16,453	778,716	—	3,016,077
Interest income - notes receivable	29,864	576,480	—	—	—	—	—	—	—	—	—	—	—	606,464
Charges for services	• 467	88,683	—	—	• 4,997,555	831,374	3,102	56,773	208,179	• 52,346	1,022,140	—	—	17,331,049
Other income	84,307	—	—	—	417	—	—	• 11,215	—	—	1,057	428,017	—	525,013
Total operating revenues	• 374,221	665,163	942,625	—	• 4,997,782	831,374	3,102	67,988	208,179	152,346	1,039,600	1,206,733	—	21,478,601
Operating expenses														
Salaries and benefits	79,865	438,472	524,438	—	2,352,029	732,679	—	—	—	—	4,117	412,554	—	4,542,454
Taxes on property	570	47,587	52,582	—	336,968	280,107	—	—	6,000	3,182	43,407	46,389	—	810,792
Supplies	17,289	37,810	57,189	—	252,460	182,292	—	53,924	49,889	4,648	33,771	35,306	59	734,637
Contractual service	142,954	111,133	8,285	—	210,302	156,108	—	—	—	130,840	1,551,722	—	—	2,320,344
Lease telephone and utilities	824	5,440	42,985	—	209,447	19,814	—	—	—	3,152	46,467	41,789	—	368,928
Repairs and maintenance	75,915	17,551	220,851	—	148,953	3,421	—	—	303	2,882	46,292	100,867	—	914,935
Provision recovery for bad debts	110,383	398,515	—	—	—	—	—	—	—	—	—	55,910	—	522,708
Depreciation expense	408,325	—	39,216	—	101,533	17,365	—	—	9,195	—	—	5,816	—	572,035
Provision for doubtful accounts	385	3,279	1,055	—	14,004	4,832	—	—	—	—	454	2,422	—	78,486
Other expenses	150,027	13,014	18,515	—	686,154	131,821	—	15,195	14,672	—	—	32,298	—	862,932
Total operating expenses	786,712	1,022,467	952,036	—	4,329,750	• 519,467	—	69,119	80,339	144,704	1,726,270	733,335	59	• 11,361,612
Operating income (loss), net	587,509	(357,638)	(18,411)	—	10,659,032	(679,093)	3,102	(1,731)	127,820	7,642	(686,580)	473,398	(59)	10,116,991
Nonoperating revenues (expenses)														
Interest and dividends	28,342	44,888	—	—	296	—	—	—	—	—	—	—	—	74,526
Statutory allocations	4,589,878	—	—	—	—	—	—	—	—	—	—	—	—	4,589,878
Total nonoperating revenues (expenses)	4,618,220	44,888	—	—	296	—	—	—	—	—	—	—	—	4,664,404
Nonoperating income (expense), net	5,205,729	(312,750)	(16,411)	—	10,659,328	(679,093)	3,102	(1,731)	127,820	7,642	(686,580)	473,398	(59)	14,781,395
Excess (deficiency) of revenues over (under) expenses	—	—	—	—	(1,628,718)	793,369	—	—	—	—	1,628,749	—	—	2,884,550
Transfers														
Change in net position	5,205,729	(312,750)	(16,411)	—	9,030,579	• 14,306	3,102	(1,731)	127,820	7,642	942,169	473,398	(59)	• 7,600,895
Net position beginning of year	33,757,035	• 17,178,132	307,836	(2,091,101)	30,378,041	1,238,119	124,761	227,456	494,478	(124,386)	566,129	817,967	—	82,886,501
Net position end of year	\$ 38,973,764	16,865,383	291,425	—	39,408,620	1,352,425	127,863	225,725	622,298	(116,744)	1,568,298	1,291,365	(59)	100,552,396

See accompanying independent auditor's report

THE NAVAJO NATION
Condensed Statement of Cash Flows
 Enterprise Funds
 Modified Accrual Budget Basis
 Year ended September 30, 2017

	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	Veterinary Medical Sales Fund	Total
Cash flow from operating activities														
Receipts from customers	\$ 1,270,821	1,304,462	942,825	—	14,887,995	831,374	3,102	58,173	208,179	152,346	1,035,633	778,716	—	21,573,796
Receipt of interest on loans	22,984	576,480	—	—	—	—	—	—	—	—	92,344	—	—	606,464
Payments to employees for services	(74,121)	(469,885)	(513,986)	—	(2,414,319)	(754,827)	—	(53,924)	(49,489)	(4,646)	(32,271)	(393,951)	—	(4,742,576)
Payments to suppliers	(1,034,941)	(1,034,941)	(1,034,941)	—	(1,540,403)	(574,328)	—	(1,540,403)	(5,107)	(143,306)	(1,881,668)	(1,957,264)	—	(10,042,571)
Other receipts (payments)	(87,611)	(18,658)	(35,527)	—	(38,271)	(38,448)	—	(3,982)	—	—	(26,296)	(12,966)	—	(5,025,672)
Net cash from operating activities	548,591	1,195,285	3,912	—	10,711,610	(718,521)	3,102	(1,731)	153,183	4,312	(642,934)	176,721	—	11,459,830
Cash flows from capital and related financing activity														
Acquisition of capital assets	(1,399,583)	—	(49,403)	—	(247,793)	(83,266)	—	—	—	—	—	—	—	(1,780,045)
Net cash from capital and related financing activity	(1,399,583)	—	(49,403)	—	(247,793)	(83,266)	—	—	—	—	—	—	—	(1,780,045)
Cash flow from noncapital and related financing activities														
Transfer	—	—	—	—	2,091,101	793,396	—	—	—	—	1,628,749	—	—	2,864,500
Salary allocations	(4,988,878)	—	—	—	(1,628,749)	793,396	—	—	—	—	1,628,749	—	—	(4,588,878)
Net cash from noncapital and related financing activities	(4,988,878)	—	—	—	(1,628,749)	793,396	—	—	—	—	1,628,749	—	—	(4,588,878)
Cash flow from investing activities														
Decrease in investments	(1,084,296)	(29,057,959)	—	—	—	—	—	—	—	—	—	—	—	(31,142,255)
Sales of investments	12,965,837	26,803,547	—	—	—	—	—	—	—	—	—	—	—	39,769,384
Interest on investment and cash balances	22,535	30,869	—	—	296	—	—	—	—	—	—	—	—	53,699
Net cash from investing activities	(1,095,864)	(2,663,544)	—	—	296	—	—	—	—	—	—	—	—	(3,738,132)
Net increase (decrease) in cash and cash equivalents	2,643,002	(1,448,259)	(39,491)	2,091,101	8,855,664	(8,388)	3,102	(1,731)	(53,183)	4,312	985,815	176,721	—	13,415,031
Cash and cash equivalents, beginning of year	18,687,524	4,572,729	748,359	(2,091,101)	(25,821,846)	(1,853,258)	(24,761)	(22,456)	(441,195)	(64,538)	(800,005)	(1,081,382)	—	52,154,852
Cash and cash equivalents, end of year	\$ 21,330,526	\$ 3,098,969	\$ 708,868	\$ —	\$ 34,677,552	\$ (1,862,370)	\$ (12,763)	\$ (22,726)	\$ (594,378)	\$ (60,226)	\$ 1,785,820	\$ (1,254,103)	\$ —	\$ 65,568,886
Reconciliation of operating income loss to net cash from operating activities														
Operating income (loss)	\$ 587,509	(357,638)	(16,411)	—	(10,659,032)	(679,083)	3,102	(1,731)	127,620	7,642	(686,580)	473,348	(59)	10,116,991
Adjustments to reconcile operating income to net cash from operating activities														
Depreciation expense	408,509	—	30,226	—	101,533	173	—	—	9,195	—	—	5,760	—	555,396
Loss on disposal of capital assets	—	—	—	—	—	93,373	—	—	—	—	—	55,410	—	148,783
Provision for bad debts	110,395	356,515	—	—	—	—	—	—	—	—	—	—	—	466,910
Decrease in notes receivable	13,650	—	—	—	—	—	—	—	7,486	—	25,006	382,793	—	336,285
Decrease in notes payable	12,890	1,215,779	—	—	—	—	—	—	—	—	—	—	—	1,228,669
Increase (decrease) in deferred outflows	(2,821)	1,961	(3,231)	—	39,612	(11,824)	—	—	—	—	18,974	(14,348)	—	(67,094)
Increase (decrease) in accounts payable	(588,094)	14,142	14,352	—	33,635	(111,026)	—	—	8,682	(3,300)	(106,713)	5,813	59	(547,758)
Increase (decrease) in net pension liability	4,854	(33,166)	(1,185)	—	(101,288)	(34,701)	—	—	—	—	(103,042)	27,459	—	(122,521)
Increase (decrease) in compensated absences	3,514	(1,616)	(1,189)	—	(1,018,379)	(1,018,379)	—	—	—	—	(1,018,379)	(1,018,379)	—	(2,036,761)
Increase (decrease) in deferred inflows	3,677	(3,066)	21,180	—	84,789	26,771	—	—	—	—	(2,811)	18,348	—	159,328
Total adjustments	(38,916)	1,552,923	26,323	—	(72,879)	(39,428)	—	—	(25,383)	(3,330)	(47,646)	(266,877)	59	(1,342,839)
Net cash from operating activities	\$ 548,591	\$ 1,195,285	\$ 9,912	—	\$ 10,711,610	\$ (1,852,370)	\$ 3,102	\$ (1,731)	\$ (53,183)	\$ 4,312	\$ (642,934)	\$ (176,721)	—	\$ 11,459,830

See accompanying independent auditor's report

THE NAVAJO NATION

Combining Statement of Net Position

Internal Service Funds

Modified Accrual Budget Basis

September 30, 2017

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
Current assets:									
Cash and cash equivalents	\$ 24,784,324	2,284,390	688,794	(2,933,302)	1,021,065	(85,375)	181,937	7,809,452	33,761,285
Investments	—	—	—	—	—	30,847,858	15,570,009	—	46,217,867
Receivables:									
Accrued interest receivable, net	—	—	—	—	—	68,181	54,901	—	124,082
Accounts receivable	—	—	282,154	—	1,175,624	18,551	119,884	—	1,594,313
Total receivables	—	—	282,154	—	1,175,624	85,732	174,885	—	1,718,395
Total current assets	24,784,324	2,284,390	880,948	(2,933,302)	2,196,689	30,838,215	15,926,831	7,809,452	81,697,547
Noncurrent assets:									
Capital assets:									
Buildings	51,829	—	—	—	—	—	—	—	51,829
Vehicles	43,356,185	—	—	—	—	236,101	86,462	—	43,356,185
Equipment	912,011	468,344	3,351	4,297,505	—	—	—	—	6,001,774
Total capital assets	44,320,025	468,344	3,351	4,297,505	—	236,101	86,462	—	49,409,768
Accumulated depreciation	38,347,425	443,017	3,767	2,848,299	—	134,800	59,545	—	41,636,653
Capital assets, net	5,972,600	23,327	(416)	1,849,206	—	101,501	26,917	—	7,773,135
Total noncurrent assets	5,972,600	23,327	(416)	1,849,206	—	101,501	26,917	—	7,773,135
Pension-related outflows	483,923	34,316	19,570	71,701	68,708	111,004	53,612	—	852,832
Total deferred outflows of resources	483,923	34,316	19,570	71,701	68,708	111,004	53,612	—	852,832
Total assets	\$ 31,250,647	2,352,033	1,000,102	(1,212,395)	2,265,395	30,850,720	16,007,360	7,809,452	90,323,514

Liabilities, Deferred Inflow of Resources, and Net Position

Current liabilities:									
Accounts payable	\$ 73,368	16,628	—	—	207,587	68,095	21,331	—	387,009
Current portion of compensated absences	182,346	11,737	11,960	—	5,287	44,785	12,054	—	278,179
Current estimated claims payable	—	—	—	—	13,500,000	2,400,427	303,614	—	16,204,041
Accrued liabilities	211,895	8,787	5,724	—	1,950,876	32,837	11,374	—	2,221,493
Total current liabilities	477,609	37,152	17,684	—	15,663,760	2,546,144	348,373	—	19,090,722
Noncurrent liabilities:									
Estimated claims payable	—	—	—	—	—	—	—	3,840,160	3,840,160
Net pension liability	2,217,670	154,075	87,868	321,933	308,485	488,398	240,715	—	3,829,144
Total noncurrent liabilities	2,217,670	154,075	87,868	321,933	308,485	488,398	240,715	—	7,669,304
Total liabilities	2,695,278	191,227	105,552	321,933	15,972,245	3,044,542	589,088	3,840,160	26,760,026
Pension-related inflows	381,886	28,519	15,123	55,410	53,095	85,782	41,431	—	659,056
Total deferred inflows of resources	381,886	28,519	15,123	55,410	53,095	85,782	41,431	—	659,056
Net position:									
Net investment in capital assets	5,972,600	23,327	(416)	1,649,206	—	101,501	26,917	—	7,773,135
Restricted, expendable for claims and judgments	22,201,272	—	—	—	2,196,689	27,618,895	15,349,924	—	45,165,508
Unrestricted	28,173,872	2,134,287	879,843	(3,238,944)	(15,956,634)	—	—	3,869,282	9,985,789
Total net position	28,173,872	2,134,287	879,843	(1,589,738)	(13,759,945)	27,720,396	15,376,841	3,869,282	62,904,432
Total liabilities, deferred inflows net position	\$ 31,250,647	2,352,033	1,000,102	(1,212,395)	2,265,395	30,850,720	16,007,360	7,809,452	90,323,514

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, 2017

	Fleet Management	Duplicating Services	Office Supply Center	Air Transportation	Group Health Self-Insurance Fund	Property and Casualty Self-Insurance Fund	Worker's Compensation Insurance Fund	Contingency Management Fund	Total
Operating revenues:									
Insurance premium income	\$ —	—	—	—	42,403,229	9,559,547	2,492,494	—	54,455,270
Charges for services	12,015,936	1,414,810	397,930	342,325	—	—	—	—	14,171,001
Other income	55,478	—	—	—	1,397,568	2,004	6,646	—	1,461,696
Total operating revenues	12,071,414	1,414,810	397,930	342,325	43,800,797	9,561,551	2,499,140	—	70,087,967
Operating expenditures:									
Personnel	3,244,791	232,621	144,254	456,853	444,028	704,060	315,079	—	5,541,686
Travel, per diem, and vehicle	185,557	15,851	6,805	33,127	59,624	115,726	55,804	—	472,494
Supplies	4,434,290	44,911	314,526	143,213	42,037	56,666	107,504	—	5,143,147
Contractual service	—	—	—	—	5,655,722	951,138	42,119	—	6,648,979
Lease, telephone, and utilities	26,978	355,214	4,957	1,851	5,334	13,882	10,960	—	419,176
Repairs and maintenance	189,114	86,598	262	133,682	1,888	25,306	20,212	—	457,062
Provision (recovery) for bad debts	—	—	—	—	795,736	(453,394)	3,645	200	346,187
Depreciation expense	2,876,289	15,481	416	60,605	—	31,635	8,972	—	2,983,398
Benefits and claims	—	—	—	—	38,976,383	3,137,667	2,348,649	3,066,365	47,529,064
Reinsurance premiums	20,301	1,283	838	3,102	820,814	2,563,072	2,415	—	3,411,825
Other expense	82,678	35,986	14,905	42,217	1,066,880	280,137	47,305	—	1,570,108
Total operating expenditures	11,059,998	787,945	486,963	874,650	47,868,446	7,425,895	2,962,664	3,066,565	74,533,126
Net operating income (loss)	1,011,416	626,865	(89,033)	(532,325)	(4,067,649)	2,135,656	(463,524)	(3,066,565)	(4,445,159)
Nonoperating revenues:									
Interest and dividends	—	—	50	—	791	254,022	318,245	—	573,108
Net increase in fair value of investments	—	—	—	—	—	—	819,263	—	819,263
Total nonoperating revenues	—	—	50	—	791	254,022	1,137,508	—	1,392,371
Net nonoperating income	—	—	50	—	791	254,022	1,137,508	—	1,392,371
Excess (deficiency) of revenues over (under) expenditures	1,011,416	626,865	(88,983)	(532,325)	(4,066,858)	2,389,678	673,984	(3,066,565)	(3,052,788)
Transfers	—	—	—	543,050	—	—	—	3,337,255	3,880,305
Change in net position	1,011,416	626,865	(88,983)	10,725	(4,066,858)	2,389,678	673,984	270,690	827,517
Net position, beginning of year	27,162,456	1,507,422	968,410	(1,600,463)	(9,693,087)	25,330,718	14,702,857	3,698,602	62,076,915
Net position, end of year	\$ 28,173,872	2,134,287	879,427	(1,589,738)	(13,759,945)	27,720,396	15,376,841	3,969,292	62,904,432

See accompanying independent auditors' report.

THE NAVAJO NATION
Combining Statement of Cash Flows
Internal Service Funds
Modified Accrual Budget Basis
Year ended September 30, 2017

	Fleet Management	Duplicating Services	Office Supply Center	Air Transpiration	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	\$ 12,015,936	1,418,408	395,576	342,325	—	—	—	—	14,172,245
Cash received for premiums from the government	—	—	—	—	25,557,173	3,800,000	1,130,890	—	30,488,063
Cash received from others for premiums	—	—	—	—	16,835,148	6,198,394	1,356,888	—	24,390,430
Payments to employees for services	(3,249,686)	(224,208)	(125,957)	(473,356)	(453,089)	(733,419)	(353,801)	—	(5,519,516)
Payment of claims	—	—	—	—	(34,176,363)	(2,548,649)	(2,348,649)	(218,747)	(9,363,505)
Payments to suppliers	(4,434,290)	(44,911)	(314,526)	(143,213)	(42,037)	(66,666)	(107,504)	—	(5,143,147)
Payments to third parties for services	(960,103)	(481,115)	(27,767)	(213,978)	(7,201,175)	(3,986,660)	(122,992)	—	(12,593,986)
Other receipts (payments)	(856,806)	8,787	(16,671)	—	—	(16,755)	(53,322)	—	(934,787)
Net cash from operating activities	2,915,051	676,961	(89,345)	(488,222)	513,637	2,584,968	(498,490)	(218,747)	5,395,813
Cash flows from capital and related financing activity:									
Acquisition of capital assets	(1,303,097)	(26,821)	—	—	—	—	—	—	(1,329,718)
Net cash from capital and related financing activity	(1,303,097)	(26,821)	—	—	—	—	—	—	(1,329,718)
Cash flows from noncapital and related financing activity:									
Transfer	—	—	—	543,050	—	—	—	3,337,255	3,880,305
Net cash from noncapital and related financing activity	—	—	—	543,050	—	—	—	3,337,255	3,880,305
Cash flows from investing activities:									
Purchases of investments	—	—	—	—	—	(65,068,236)	(12,568,715)	—	(77,636,951)
Sale of investments	—	—	—	—	—	62,619,779	10,122,652	—	72,742,431
Interest on investment and cash balances	—	—	50	—	791	216,952	314,710	—	532,503
Net cash from investing activities:	—	—	50	—	791	(2,231,505)	(2,131,353)	—	(4,362,017)
Cash and cash equivalents, beginning of year	1,611,954	650,340	(89,295)	54,828	514,428	353,463	(2,829,843)	3,118,508	3,584,383
Cash and cash equivalents, end of year	23,172,370	1,644,050	788,089	(2,988,130)	506,637	(448,838)	2,811,790	4,690,944	30,176,902
Reconciliation of operating income (loss) to net cash from operating activities:									
Operating income (loss)	\$ 1,011,416	626,865	(89,033)	(532,325)	(4,067,649)	2,135,656	(463,524)	(3,066,565)	(4,445,159)
Adjustments to reconcile operating income (loss) to net cash from operating activities:									
Depreciation expense	2,876,289	15,481	416	60,605	—	31,635	8,972	—	2,993,398
Loss on disposal of capital assets	—	—	—	1	—	—	—	—	1
Provision (recovery) for bad debts	—	—	—	—	795,736	(453,394)	3,645	200	346,187
Decrease (increase) in accounts receivable	—	3,598	(2,354)	—	(1,408,476)	436,843	(4,715)	—	(975,104)
Decrease (increase) in deferred outflows	(65,744)	(6,018)	(5,772)	(6,681)	(7,665)	(9,693)	358	—	(101,215)
Increase (decrease) in accounts payable	(967,759)	22,604	(16,671)	—	409,087	(54,354)	(4,145)	—	(611,238)
Increase (decrease) in compensated absences	11,093	2,337	3,241	—	(5,504)	(394)	137	—	10,710
Increase (decrease) in net pension liability	(72,365)	2,730	14,070	(25,815)	(17,962)	(43,437)	(47,931)	—	(190,790)
Increase in deferred inflows	122,121	9,364	6,758	15,993	16,090	24,365	8,713	—	203,404
Increase in estimated claims payable	—	—	—	—	4,800,000	517,941	—	2,847,618	8,165,559
Total adjustments	1,903,635	50,996	(312)	44,103	4,581,286	449,312	(34,966)	2,847,618	9,840,972
Net cash from operating activities	\$ 2,915,051	676,961	(89,345)	(488,222)	513,637	2,584,968	(498,490)	(218,747)	5,395,813

See accompanying independent auditor's report.

THE NAVAJO NATION
Comparing Statement of Fiduciary Net Position
Fiduciary Funds
Modified Actual Budget Basis
September 30, 2017

	Pension Trust Funds				Private-Purpose Trust Funds							Total Fiduciary Funds
	Retirement Fund	Deferred Retirement Fund	Navajoeso 401(k) Fund	Total Pension Trust Funds	Navajo Academy Fund	Navajo Trust Fund	Sales Tax Trust Fund	Local Governmentance Fund	Veterans Trust Fund	Navajo Benevolence Trust Fund	Total Private- Purpose Trust Funds	
Cash and cash equivalents												
Managed by												
The Navajo Nation	\$ 51,375	25,169	4,713	82,257	423,349	(82,393)	3,313,648	77,328,033	16,375,602	4,441,686	37,904,011	57,978,282
Managed by the Navajo Nation	—	—	10	10	—	—	—	—	2,736,048	—	2,736,048	2,736,048
Managed by the Navajo Nation	19,763,620	187,278	—	19,950,898	—	—	—	—	—	—	—	19,950,898
Managed by the Navajo Nation	5,818,915	152,447	(4,203)	22,005,159	423,349	(82,393)	3,313,648	77,328,033	16,375,602	4,441,686	38,640,059	58,645,218
Total cash and cash equivalents												
Investments												
Managed by												
The Navajo Nation	—	—	—	—	—	—	6,186,632	6,123,877	—	500,795	12,811,264	12,811,264
Managed by the Navajo Nation	824,619,757	2,683,497	100,306,970	927,610,224	—	—	—	—	126,042,899	—	126,042,899	126,042,899
Managed by the Navajo Nation	824,619,757	2,683,497	100,306,970	927,610,224	—	—	6,186,632	6,123,877	126,042,899	500,795	127,559,124	1,099,171,348
Total investments												
Receivables												
Notes receivable	—	—	—	—	—	—	—	—	5,297,217	—	5,297,217	5,297,217
Participations receivable	—	—	8,221,852	8,221,852	—	—	—	—	—	—	8,221,852	8,221,852
Accounts receivable	37,966	—	—	37,966	850	—	18,864	27,697	488,132	679	571,602	568,349
Total receivables	1,375,669	87	8,221,852	9,597,608	850	—	18,864	27,697	576,339	679	9,523,547	19,056,143
Pensions payable	—	—	—	—	—	—	—	—	78,815	—	78,815	78,815
Total deferred outflows of resources	—	—	—	—	—	—	—	—	78,815	—	78,815	78,815
Liabilities												
Deferred inflows of resources	846,742,330	2,876,026	108,527,619	958,145,975	423,349	(82,393)	9,520,144	13,372,967	151,023,793	4,843,022	216,807,591	1,173,958,540
Accounts payable	149,883	—	—	149,883	—	—	83,204	—	46,234	—	129,238	129,238
Accrued liabilities	23,416	—	—	23,416	—	—	159,808	—	7,009	—	176,827	176,827
Net pension liability	—	—	—	—	—	—	—	—	353,811	—	353,811	353,811
Total liabilities	173,299	—	—	173,299	—	—	234,014	—	517,144	—	741,158	1,005,707
Net pension liability	—	—	—	—	—	—	—	—	60,807	—	60,807	60,807
Total deferred inflows of resources	—	—	—	—	—	—	—	—	60,807	—	60,807	60,807
Net pension liability in fund for pension on	846,742,330	2,876,026	108,527,619	958,145,975	423,349	(82,393)	9,520,144	13,372,967	151,023,793	4,843,022	216,807,591	1,173,958,540

See accompanying independent auditors' report.

THE NAVALO NATION

Combining Statement of Changes in Fiduciary Net Position

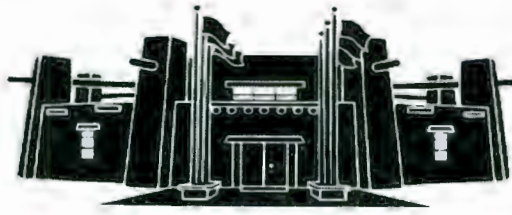
Fiduciary Funds

Modified Actual Budget Basis

September 30, 2017

	Pension Trust Funds				Private Purpose Trust Funds							Total Private- Purpose Trust Funds	Total Fiduciary Funds
	Retirement Fund	Deferred Retirement Fund	Nihlbeeso 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 Governance Fund	Navajo Benefit Freeze Trust Fund	
Adopters													
Interest and dividends	\$ 21,778,618	74,278	1,429,582	22,782,478	368,428	316,629	338,852	2,304	2,254	67,002	334,224	2,866	27,255,072
Net increase in fair value of investments	80,339,833	22,865	8,562,784	88,515,482	768,799	553,827	644,838	—	—	—	—	—	101,714,562
Contributions to plans	42,361,005	655,857	9,746,193	51,973,055	—	—	—	—	—	—	—	—	51,973,055
Administrative expenses	—	—	—	—	—	—	—	—	—	10,423,469	—	—	10,423,469
Grants	358,723	—	—	358,723	23,150	3	1,885	—	—	—	—	—	198,967
Salary allocation to permanent fund	—	—	—	—	—	—	—	—	—	1,250,817	—	—	(1,250,817)
Salary allocation of current year revenues	—	—	—	—	—	—	—	—	—	4,044,305	—	—	6,146,544
Total additions	142,538,179	863,000	18,728,559	164,629,738	1,160,377	969,659	985,735	2,304	2,254	5,195,349	334,224	2,866	186,789,235
Deductions													
Retirement	535,544	—	—	535,544	36,036	—	—	—	—	—	—	—	688,181
Travel	48,908	—	—	48,908	9,413	—	—	—	—	—	—	—	58,321
Supplies	27,597	—	—	27,597	—	—	—	—	—	—	—	—	45,722
Chapter disbursements	—	—	—	—	—	—	—	—	—	4,869,452	—	288,545	5,147,997
Tribal grants	44	—	—	44	43,776	—	—	—	—	—	—	—	3,451,703
Lease, utilities and telephone	119,159	—	—	119,159	5,568	—	—	—	—	—	—	—	3,451,747
Repair and maintenance	—	—	—	—	—	—	—	—	—	—	—	—	134,544
Retirement benefits	36,706,419	395,183	9,204,181	45,505,783	—	—	—	—	—	—	—	—	—
Other	3,911,142	—	—	3,911,142	29,646	26,753	28,610	—	—	—	—	—	45,306,783
Scholarship payments	—	—	—	—	—	—	289,156	—	—	—	—	—	4,285,377
Other	739,867	—	60,889	800,756	28,315	355,380	—	—	36,988	55,415	—	267	865,517
Total deductions	41,838,720	395,183	9,532,100	50,767,013	160,030	382,143	315,768	—	36,988	4,924,867	—	288,612	10,342,217
Change in net position	103,199,449	468,817	10,196,459	113,864,725	1,000,347	587,516	669,707	2,304	34,734	270,482	334,224	(285,946)	21,792,720
Net position, beginning of year	742,374,586	2,409,209	98,331,160	843,114,955	12,712,124	10,973,012	11,585,481	471,895	(57,659)	9,015,648	13,038,733	5,228,968	1,037,230,056
Net position, end of year	\$ 845,574,035	\$ 2,878,026	\$ 108,527,619	\$ 956,977,680	\$ 13,712,471	\$ 11,560,568	\$ 12,255,188	\$ 474,199	\$ (23,393)	\$ 9,286,130	\$ 13,372,957	\$ 4,943,022	\$ 1,172,885,614

See accompanying independent auditors' report.



MEMORANDUM

TO: Seth Damon
23rd Navajo Nation Council

FROM: 
Kristen Lowell, Principal Attorney
Office of Legislative Counsel

DATE: June 26, 2018

SUBJECT: **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 2017**

As requested, I have prepared the above-referenced proposed resolution and associated legislative summary sheet pursuant to your request for legislative drafting. Based on existing law and review of documents submitted, the resolution as drafted is legally sufficient. As with any action of government however, it can be subject to review by the courts in the event of proper challenge.

Please ensure that this particular resolution request is precisely what you want. You are encouraged to review the proposed resolution to ensure that it is drafted to your satisfaction.

The Office of Legislative Counsel confirms the appropriate standing committee(s) based on the standing committees powers outlined in 2 N.N.C. §§301, 401, 501, 601 and 701. Nevertheless, "the Speaker of the Navajo Nation Council shall introduce [the proposed resolution] into the legislative process by assigning it to the respective oversight committee(s) of the Navajo Nation Council having authority over the matters for proper consideration." 2 N.N.C. §164(A)(5).

If the proposed resolution is unacceptable to you, please contact me at the Office of Legislative Counsel and advise me of the changes you would like made to the proposed resolution.

THE NAVAJO NATION
LEGISLATIVE BRANCH
INTERNET PUBLIC REVIEW PUBLICATION



LEGISLATION NO: _0218-18_____

SPONSOR: Seth Damon/Tom Chee

TITLE: An Action Relating to Budget and Finance and Naabik'iyati' 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 2017

Date posted: June 27, 2018 at 6:54pm

Digital comments may be e-mailed to comments@navajo-nsn.gov

Written comments may be mailed to:

Executive Director
Office of Legislative Services
P.O. Box 3390
Window Rock, AZ 86515
(928) 871-7590

Comments may be made in the form of chapter resolutions, letters, position papers, etc. Please include your name, position title, address for written comments; a valid e-mail address is required. Anonymous comments will not be included in the Legislation packet.

Please note: This digital copy is being provided for the benefit of the Navajo Nation chapters and public use. Any political use is prohibited. All written comments received become the property of the Navajo Nation and will be forwarded to the assigned Navajo Nation Council standing committee(s) and/or the Navajo Nation Council for review. Any tampering with public records are punishable by Navajo Nation law pursuant to 17 N.N.C. §374 *et. seq.*

**THE NAVAJO NATION
LEGISLATIVE BRANCH
INTERNET PUBLIC REVIEW SUMMARY**

LEGISLATION NO.: 0218-18

SPONSOR: Honorable Dwight Witherspoon

TITLE: An Action Relating to Budget and Finance and Naabik'iyati' 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 2017

Posted: June 27, 2018 at 6:54pm

5 DAY Comment Period Ended: July 2, 2018

Digital Comments received:

Comments Supporting	<i>None</i>
Comments Opposing	<i>None</i>
Inconclusive Comments	<i>None</i>



**Legislative Secretary II
Office of Legislative Services**

7/3/2018 8:17am

Date/Time

23rd NAVAJO NATION COUNCIL

Fourth Year 2018

Mr. Speaker:

The **BUDGET & FINANCE COMMITTEE** to whom has been assigned

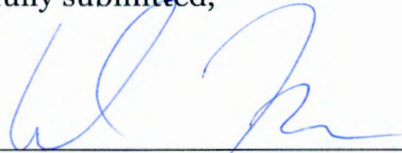
NAVAJO LEGISLATIVE BILL # 0218-18:

An Action Relating to Budget and Finance and Naabikiyati 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 2017 *Sponsored by Dwight Witherspoon and Tom T. Chee, Council Delegates*

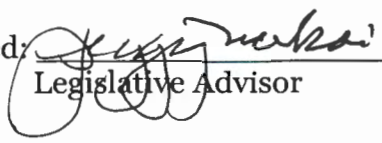
has had it under consideration and reports the same with the recommendation that It **Do Pass** without amendment.

And therefore, referred to the **NAABIKIYATI** Committee

Respectfully submitted,



Leonard Tsosie, Pro Tempore Chairman

Adopted: 
Legislative Advisor

Not Adopted: _____
Legislative Advisor

3 July 2018

The vote was **3** in favor **0** opposed Yea votes: Leonard Tsosie, Lee Jack, Sr., Tom T. Chee

Motion: Tom T. Chee

Second: Dwight Witherspoon