

**HOUSING AUTHORITY OF THE
CHEROKEE NATION OF OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

**FOR THE FISCAL YEARS ENDED
SEPTEMBER 30, 2016 AND 2015**

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

**ANNUAL FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015**

TABLE OF CONTENTS

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	1
MANAGEMENT'S DISCUSSION AND ANALYSIS	3
FINANCIAL STATEMENTS:	
Statements of Net Position	8
Statements of Revenues, Expenses and Changes in Net Position	9
Statements of Cash Flows	10
Notes to Financial Statements	11



INDEPENDENT AUDITOR'S REPORT

To the Board of Commissioners of the
Housing Authority of the Cherokee Nation of Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of the Housing Authority of the Cherokee Nation of Oklahoma (the "Housing Authority"), a component unit of the Cherokee Nation, as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits 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 auditor's 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Housing Authority as of September 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

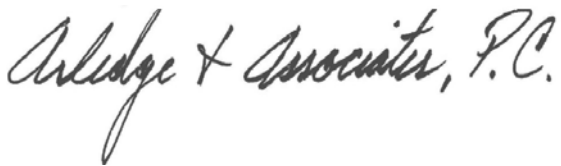
Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 22, 2017, on our consideration of the Housing Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control over financial reporting and compliance.



February 22, 2017

**HOUSING AUTHORITY OF THE CHEROKEE NATION OF
OKLAHOMA**

September 30, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS
(Unaudited)

Our discussion and analysis of the Housing Authority of the Cherokee Nation of Oklahoma's (the "Housing Authority's") financial performance provides an overview of the Housing Authority's financial activities for the fiscal year ended September 30, 2016. Please read it in conjunction with the financial statements and the accompanying notes to those financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The *Statement of Net Position* provides information about the assets owned and the liabilities owed as of September 30, 2016, with the net difference reported as "net position." The *Statement of Revenues, Expenses, and Changes in Net Position* provides information about revenues received and expenditures made during FY-2016 and the resulting net increase or decrease in "net position". The *Statement of Cash Flows* provides a breakdown, by major category, of actual cash received and cash disbursed by the Housing Authority during FY-2016. The Notes to the Financial Statements provide additional information that is essential to a full understanding of the data provided in the financial statements.

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB"). Additionally, due to the Housing Authority's relationship with the Cherokee Nation (the "Nation"), the Housing Authority's financial results are included in the Comprehensive Annual Financial Report of the Nation as a Component Unit.

FINANCIAL HIGHLIGHTS

Total assets at year-end were \$128,422,213 a \$10,586,319 increase from FY-2015. Of this amount, current assets totaled \$16,509,209 and consisted primarily of cash and investments. Non-current assets totaled \$111,913,004 and consisted primarily of inventory of homes of \$1,222,483, net capital assets (property, buildings and equipment) of \$89,273,351, mortgages receivable of \$14,932,535, investments restricted for debt service of \$534,599 and investments restricted under the Housing Authority's lease to own programs of \$3,826,288 (see Note 7 to the financial statements).

Total liabilities at year-end were \$39,125,319, an increase of \$13,406,854 from FY-2015. Of this amount, current liabilities totaled \$4,146,934. Long term liabilities at year-end consist of notes payable of \$31,152,097 consisting primarily of Title VI and Assumable Mortgage Program loans, and \$3,826,288 of Trust liabilities, consisting primarily of Homebuyers' Monthly Equity Payments (MEPA) held by the Housing Authority on behalf of the homebuyers.

The overall net position decreased by \$2,820,535 for the year.

Net position invested in capital assets decreased by a net of \$1,655,178 during FY-2016 due primarily by an increase in related debt.

Total revenues for the year totaled \$29,476,317 compared with \$21,996,789 for FY-2015. Operating revenue of \$5,502,074 was composed of dwelling income of \$4,951,762 and other income of \$550,312 for FY-2016. Non-operating revenue was composed of interest income of \$772,190, Federal grant revenue of \$22,786,778, gain on sale of equipment/land of \$37,795 and gain on conveyance of homes of \$377,480. For FY-2015, operating revenue of \$4,481,030 was composed of sales of Title VI homes for \$7,071, dwelling income of \$4,260,461 and other income of \$213,498. Non-operating revenue was composed of interest income of \$920,741, Federal grant revenue of \$16,274,360 and gain on sale of equipment of \$104,743.

Operating expenses totaled \$31,539,829 for FY-2016 compared to \$23,020,243 for FY-2015. Non-operating interest expense of \$1,027,357 was incurred in FY-2016 compared to \$516,157 for FY-2015.

Overall for the year ending September 30, 2016, Net Position decreased \$2,820,535 with ending Net Position at year-end totaling \$89,296,894 of which \$59,962,523 was invested in capital assets, \$1,378,459 was restricted for investment in partnerships/joint ventures, \$534,599 was restricted for debt service, and the remaining balance restricted for program services.

CAPITAL ASSETS

As of September 30, 2016, the Housing Authority's investment in capital assets was \$89,273,351 (net of accumulated depreciation). This investment consists of land, buildings, equipment, and software.

CAPITAL ASSETS (Cont'd)

Major capital asset additions during the current fiscal year include the following:

- Construction in process related to new home construction totaling \$15,465,610.
- The addition of vehicles and equipment totaling \$697,577.
- Purchase of computer hardware and software totaling \$25,460.

Additional information on the Housing Authority's capital assets can be found in Note 5.

LONG-TERM DEBT

The Housing Authority repaid \$1,719,173 in principal on the Title VI loan for the year ending September 30, 2016. The Title VI loan balance at September 30, 2016 totaled \$3,588,155. The Housing Authority borrowed \$15,643,515 during fiscal year 2016 in furtherance of its Assumable Mortgage Program goals. Additional information on all of the Housing Authority's debt can be found in Note 8.

ECONOMIC FACTORS AND NEXT YEAR'S OUTLOOK

1. The Housing Authority of the Cherokee Nation re-assumed the operations of housing programs from the Cherokee Nation on October 1, 2012. These programs were previously assumed and operated by the Cherokee Nation between May 1, 2008 and September 30, 2012.
2. On March 7, 2016, the Housing Authority of the Cherokee Nation assumed the operations of the Housing Rehabilitation programs previously operated by the Cherokee Nation. These programs include traditional housing rehab, replacement homes, housing accessibility, housing emergency, ICDBG, and other programs related to rehabilitation of privately owned homes under both NAHASDA and tribal funding programs.
3. An additional workforce of approximately 79 employees transferred from Cherokee Nation with the Housing Rehab programs.
4. The HACN has been working to improve the efficiency of the Rehab and all programs we operate. That includes to mindfully exam staffing needs, especially through cases of attrition. As employees retire or otherwise separate from employment, management carefully determines if the position should be filled, can be absorbed by another position, etc. This is all done to ensure that programs are operated in an effective and efficient manner.
5. Benefits packages for employees of the Housing Authority (including medical, dental, 401k plan) and Risk Management operations is administered by the Cherokee Nation pursuant to a Memorandum of Agreement (MOA) through both entities.
6. A separate Memorandum of Agreement (MOA) exists between the Housing Authority and the Cherokee Nation for the Housing Authority to administer Native American Housing Assistance and Self-Determination (NAHASDA) and other grant funds as a sub-recipient of the Cherokee Nation.
7. The Cherokee Nation was one of twenty six tribes across the country invited and awarded the HUD-VASH demonstration project. This grant project will be used to assist up to 20 homeless veterans with tenant based rental assistance. The HACN is administering this housing grant for

Cherokee Nation and work directly with the US Department of Veterans Affairs with approval and supportive services of eligible applicants.

8. The Housing Authority has purchased a financial system and is taking steps to separate all Information Technology (IT) functions from the Cherokee Nation. This includes the staffing capacity to assume all IT related functions, including system security, of the Housing Authority's independent IT network. The HACN has also set up a disaster recovery site outside of its main offices in Tahlequah to ensure continued operations should a catastrophic event occur at Tahlequah.
9. The Housing Authority employs a full time Executive Director to carry out the day to day operations. The Board of Commissioners meet as needed, at a minimum of once per month to conduct the business of the Housing Authority.
10. The Executive Director, on behalf of the Housing Authority, employs a senior management team to assist with carrying out the operations. This team includes a Deputy Director, Director of Finance (Chief Financial Officer), Director of Information Technology (Chief Information Officer), Director of Facilities, Director of Maintenance, Director of Housing Management, and a Director of Housing Rehab.
11. The Housing Authority continues to oversee its 501(c)3, Cherokee Affordable Housing Inc., which has partnerships for the operations of four Low Income Housing Tax Credit Projects throughout the Cherokee Nation.
12. The Board of Commissioners and the Executive Director will continue to administer the business and operations of the Housing Authority. The MOA with the Cherokee Nation will allow for the Housing Authority to act as a sub recipient of grant funds, specifically NAHASDA, and administer those funds on behalf of the Nation.
13. The Executive Director maintains constant and open communications with the Cherokee Nation Executive (Principal Chief) and Legislative (Tribal Council) branches of government. He also remains in constant communications with other Executive Directors of the tribal government in order to advance housing opportunities.
14. The Executive Director and the Cherokee Nation closely follow actions at the federal government level to insure funding. This is furthered by membership to the National American Indian Housing Council (NAIHC) and the National Congress of American Indians (NCAI) on the national level. It is also supported on a regional level with membership of the Southern Plains Indian Housing Association (SPIHA).
15. The Executive Director stays abreast of current issues that stand to affect federal funding through these memberships.
16. The Executive Director served as one of twenty-four tribal representatives on the twenty-six-member Formula Negotiated Rulemaking Committee. The Committee completed its work and published the Final Rules for inclusion as regulations related to the NAHASDA formula late 2016.
17. The Cherokee Nation has also notified the HACN of their intent to nominate a tribal official to serve on what is to be the U.S. Department of Housing and Urban Development Tribal Intergovernmental Advisory Committee (TIAC). The purpose of the TIAC is to advise the Secretary of HUD on tribal issues within the department. Along with the tribal official nominee, the Executive Director of the HACN will be the designated alternate for the tribe as well as a technical advisor.

18. The Executive Director, with Cherokee Nation's support, continually follow issues related to NAHASDA Reauthorization which expired on October 1, 2013. An open line of communication exists with Congressional leadership and members in the both the House and Senate on this and other issues related to Indian Housing.
19. The Housing Authority continues developing the construction of new homes, using non-NAHASDA related sources. This program has resulted in additional assets for the Housing Authority related to housing stock. In addition to the existing program parameters, the HACN expects to expand the program this year. As part of that expansion, the HACN will lay out a new rental payment structure for any new homes developed under this program.
20. As the Housing Authority continues to pay down Title VI debt, it will look at the possibility of developing new housing options under the Title VI program.
21. The Housing Authority sought and was granted approval to demolish its oldest rental property, Project 45-01, at Pryor and rebuild with NAHASDA funds. This will result in the construction of two low rent apartment projects in Sequoyah County, an area where the Housing Authority currently does not own apartments. The final demolition of the project will occur in the first quarter of calendar year 2017 with construction to commence later in the year.

CONTACTING THE HOUSING AUTHORITY'S FINANCIAL MANAGEMENT

The financial report is designed to provide a general overview of the Housing Authority's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Executive Director, Housing Authority of the Cherokee Nation, P.O. Box 1007, Tahlequah, OK 74465.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

STATEMENTS OF NET POSITION

September 30, 2016 and 2015

ASSETS	2016	2015
Current Assets:		
Cash and cash equivalents	\$ 6,384,763	\$ 3,562,780
Investments	4,384,400	9,022,055
Accounts receivable	403,813	302,955
Accrued interest	448,843	431,063
Mortgages receivable-Title VI	524,914	518,989
Due from other governments - Cherokee Nation	2,740,618	2,432,822
Prepaid expenses	18,610	14,547
Other current assets	<u>1,603,248</u>	<u>1,755,601</u>
Total current assets	<u>16,509,209</u>	<u>18,040,812</u>
Noncurrent Assets:		
Restricted investments	4,360,887	5,029,082
Inventory of homes for sale	1,222,483	1,441,175
Notes receivable-partnerships/joint ventures	536,861	482,482
Investment in partnerships/joint ventures	1,378,459	1,378,476
Mortgages receivable-Title VI	14,932,535	15,531,163
Capital assets, net	89,273,351	75,629,990
Other noncurrent assets	<u>208,428</u>	<u>302,714</u>
Total noncurrent assets	<u>111,913,004</u>	<u>99,795,082</u>
Total assets	<u>128,422,213</u>	<u>117,835,894</u>
LIABILITIES		
Current Liabilities:		
Accounts payable	562,914	647,482
Accrued expenses	1,786,934	1,182,455
Unearned revenue	50,200	59,713
Notes payable	<u>1,746,886</u>	<u>1,463,949</u>
Total current liabilities	<u>4,146,934</u>	<u>3,353,599</u>
Noncurrent Liabilities:		
Trust liabilities	3,826,288	4,509,198
Notes payable	<u>31,152,097</u>	<u>17,855,668</u>
Total noncurrent liabilities	<u>34,978,385</u>	<u>22,364,866</u>
Total liabilities	<u>39,125,319</u>	<u>25,718,465</u>
NET POSITION		
Invested in capital assets, net of related debt	59,962,523	61,617,701
Investment in partnerships/joint ventures	1,378,459	1,378,476
Restricted for debt service	534,599	519,884
Restricted for program services	<u>27,421,313</u>	<u>28,601,368</u>
Total net position	<u>\$ 89,296,894</u>	<u>\$ 92,117,429</u>

See independent auditor's report and accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For the fiscal years ended September 30, 2016 and 2015

OPERATING REVENUES:	<u>2016</u>	<u>2015</u>
Sale of homes - Title VI	\$ 435,644	\$ 252,653
Less cost of sales - Title VI	<u>435,644</u>	<u>245,582</u>
Gain (Loss) on sale of homes	-	7,071
Dwelling income	4,951,762	4,260,461
Other income	<u>550,312</u>	<u>213,498</u>
Total operating revenues	<u>5,502,074</u>	<u>4,481,030</u>
OPERATING EXPENSES:		
Cost of operations	7,867,497	5,116,338
Housing assistance payments	6,796,468	4,584,734
Salaries and wages	11,608,488	8,858,062
Other expenses	131,898	140,661
Depreciation	<u>5,135,478</u>	<u>4,320,448</u>
Total operating expenses	<u>31,539,829</u>	<u>23,020,243</u>
Operating income (loss)	<u>(26,037,755)</u>	<u>(18,539,213)</u>
NON-OPERATING REVENUES (EXPENSES):		
Gain on conveyance of homes	377,480	215,915
Gain on sale of equipment/land	37,795	104,743
Grant revenue	22,786,778	16,274,360
Interest income	772,190	920,741
Interest expense	<u>(1,027,357)</u>	<u>(516,157)</u>
Total non-operating revenues	<u>22,946,886</u>	<u>16,999,602</u>
Income (loss) before contributions	(3,090,869)	(1,539,611)
Capital contributions - donated equipment and land	<u>270,334</u>	<u>-</u>
Increase (decrease) in net position	(2,820,535)	(1,539,611)
NET POSITION		
Net position - beginning of period	<u>92,117,429</u>	<u>93,657,040</u>
Net position - end of period	<u>\$ 89,296,894</u>	<u>\$ 92,117,429</u>

See independent auditor's report and accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

STATEMENTS OF CASH FLOWS

For the fiscal years ended September 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from (paid to) participants	\$ 4,850,904	\$ 4,279,033
Cash received from other sources	549,112	212,298
Cash paid to suppliers	(15,000,158)	(10,238,226)
Cash paid to employees for services	<u>(11,004,009)</u>	<u>(8,688,982)</u>
Net cash provided (used) by operating activities	<u>(20,604,151)</u>	<u>(14,435,877)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Grant revenue	22,832,972	17,413,147
Title VI loan principal payments	(1,719,173)	(1,791,639)
Title VI interest paid	<u>(51,332)</u>	<u>(57,102)</u>
Net cash provided (used) by non-capital financing activities	<u>21,062,467</u>	<u>15,564,406</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from disposal of Mutual Help and IHBG homes	297,564	701,353
Proceeds from disposal of equipment and land	37,795	174,055
Loan proceeds	15,643,515	9,518,379
Loan principal payments	(344,976)	(143,293)
Loan interest paid	(976,025)	(459,055)
Purchase of property	<u>(19,357,286)</u>	<u>(19,458,060)</u>
Net cash provided (used) by capital and related financing activities	<u>(4,699,413)</u>	<u>(9,666,621)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sale of investments	10,690,000	13,141,416
Purchase of investments	(5,384,150)	(5,353,736)
Investment income	107,952	240,649
Loan to LITC partnership	-	(7,657)
Title VI mortgage interest received	524,903	628,945
Title VI principal received on mortgage	1,025,908	989,843
Title VI escrow collected (paid)	<u>98,467</u>	<u>84,368</u>
Net cash provided (used) by investing activities	<u>7,063,080</u>	<u>9,723,828</u>
Net increase (decrease) in cash and cash equivalents	2,821,983	1,185,736
Cash and cash equivalents-beginning of year	3,562,780	2,377,044
Cash and cash equivalents-end of year	<u>\$ 6,384,763</u>	<u>\$ 3,562,780</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ (26,037,755)	\$ (18,539,213)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation	5,135,478	4,320,448
Loss (gain) on Title VI sales	-	(7,071)
Change in assets and liabilities:		
(Increase) Decrease In:		
Accounts receivable	(100,858)	18,572
Due from other governments	(408,564)	3,516
Prepaid expenses	(4,063)	(123,381)
Other assets	246,639	(583,472)
Increase (Decrease) In:		
Accounts payable	(29,994)	306,844
Accrued expenses	604,479	169,080
Unearned revenue	<u>(9,513)</u>	<u>(1,200)</u>
Net cash provided (used) by operating activities	<u>\$ (20,604,151)</u>	<u>\$ (14,435,877)</u>

See independent auditor's report and accompanying notes to financial statements.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS

September 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. REPORTING ENTITY

The Housing Authority of the Cherokee Nation of Oklahoma (the "Housing Authority") was created under the provisions of the laws of the State of Oklahoma and provides affordable housing and other services to low income Native Americans within the boundaries of the Cherokee Nation (the "Nation"). Effective October 1, 1997, the Native American Housing Assistance and Self-Determination Act (NAHASDA) was implemented. NAHASDA recognizes the system of federal housing assistance to Native Americans by eliminating several separate programs of assistance and replacing them with a single block grant program. In addition to this, the purpose of NAHASDA is to provide federal assistance for Indian tribes in a manner that recognizes the right of Indian self-determination and tribal self-governance. This is implemented through the use of an annual Indian Housing Plan submitted to the Department of Housing and Urban Development (DHUD) for approval. Pursuant to Tribal Council legislation, the Nation was designated the responsible party for the federally funded NAHASDA program in 2000. Subsequent to that action, various components of the Indian Housing plan are passed through the Nation to the Housing Authority under a Memorandum of Agreement for implementation and day-to-day management.

Based on the forgoing criteria and in compliance with the provisions of GASB No. 14, *The Financial Reporting Entity*, as amended by Statement 61, the Housing Authority is included in the Nation's Comprehensive Annual Financial Report as a "component unit".

Cherokee Affordable Housing, Inc. (CAH) - CAH is a non-profit 501(c)3 corporation organized under the laws of the State of Oklahoma created primarily to serve as the eligible 501(c)3 entity required to fill the position of general partner in the low income housing tax credit partnerships and related projects that have been developed by the Housing Authority and a third party developer (see Note 6). CAH's financial activity is limited only to its role in the tax credit partnerships. The board of directors for CAH consists of the same board members of the Housing Authority. The president of CAH is the executive director of the Housing Authority. Based on the foregoing criteria and in compliance with the provisions of GASB No. 14, *The Financial Reporting Entity*, as amended by Statement 61, CAH is included as a "blended" component unit in the Housing Authority's financial statements.

B. BASIS OF ACCOUNTING

The accounting and reporting policies of the Housing Authority conform to accounting principles generally accepted in the United States of America for units of local government as promulgated by the Governmental Accounting Standards Board ("GASB").

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

B. BASIS OF ACCOUNTING (CONT'D)

The Housing Authority accounts for its activities within a proprietary fund. The proprietary fund type is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and deferred outflows of resources and all liabilities and deferred inflows of resources associated with the operation of this fund are included on the statement of net position. Proprietary fund operating statements present increases (e.g., revenues) and decreases (e.g., expenses) in total net position. The accrual basis of accounting is utilized by the proprietary fund. Under this basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred. Pursuant to GASB Statement No. 33, as amended, the Housing Authority records revenue on its voluntary nonexchange transactions when all applicable eligibility requirements, including expenditure-driven transactions, are met. Resources transmitted before the eligibility requirements have been met are reported as a liability.

C. USE OF ESTIMATES

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

D. CASH AND CASH EQUIVALENTS

For purposes of reporting the statement of cash flows, the Housing Authority has defined cash and cash equivalents as cash and investment items having an original maturity of three months or less.

E. INVESTMENTS

Investments are carried at fair value. By policy, the Housing Authority's funds are invested in DHUD approved types of investments which include (1) direct obligations of the United States; obligations issued by Government sponsored entities; securities that are guaranteed or insured by the United States; mutual (or other) funds registered with the Securities and Exchange Commission and which invest only in obligations of the United States or securities that are guaranteed or insured by the United States; or (2) accounts that are insured by an agency or instrumentality of the United States or fully collateralized to insure protection of the funds, even in the event of bank failure.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

F. INVENTORY OF HOMES FOR SALE

As a result of the operation of the Title VI Loan program, the Housing Authority has built or acquired a number of homes in various locations in anticipation of the expected demand for the homes as well as homes for specific homebuyers in accordance with an agreement with them. The amount in inventory for the years ended September 30, 2016 and 2015 was \$1,222,483 and \$1,441,175, respectively. This inventory is carried at the lower of cost or market value.

G. CAPITAL ASSETS-HOME OWNERSHIP PROGRAMS

The Housing Authority has several lease-to-own homebuyer programs wherein the tenant/homebuyer may eventually purchase the house in accordance with contractual agreements. Until the time of transfer, these homes remain the property of the Housing Authority. The costs of those units are depreciated over the expected term of payoff at the time of the original agreement, generally 25 years. When the home is paid off in accordance with the agreements, and title is passed to the homebuyer, a gain or loss is recognized on the transfer of the house to the homebuyer. See Note 7 for further disclosure regarding the Housing Authority's lease-to-own programs.

H. CAPITAL ASSETS-OTHER

Other assets that the Housing Authority has for its rental programs, area offices and central administrative offices that are not held for systematic disposition are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which range from 5 to 40 years. Maintenance and repairs are expensed as incurred. The Housing Authority capitalizes property and equipment whose costs are \$5,000 or more per unit.

I. OPERATING AND NONOPERATING REVENUE AND EXPENSE

Operating revenues are those revenues produced as a result of selling homes under the Title VI Program, providing housing units, or providing other services. Operating expenses include all costs of normal operations. Nonoperating revenues include grant revenue, gain on conveyance of homes/equipment, interest income and other nonrecurring revenue. Nonoperating expenses include interest expense and other nonrecurring expenses.

J. INCOME TAXES

The Housing Authority is organized as an agency of the State of Oklahoma and, as such, is exempt from federal and state taxation. Accordingly, no provision for income taxes has been made in the financial statements.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

K. NEW ACCOUNTING PRONOUNCEMENTS ADOPTED IN FISCAL YEAR 2016:

The Authority adopted the following accounting pronouncement during the year ended September 30, 2016:

GASB Statement No. 72, *Fair Value Measurement and Application*

GASB Statement No. 72 addresses accounting and financial reporting issues related to fair value measurements. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

2. DEPOSITS AND INVESTMENTS

The custodial credit risk for deposits is the risk that the Housing Authority will not be able to recover deposits that are in the possession of an outside party. Deposits are exposed to custodial credit risk if they are not insured or collateralized. At September 30, 2016, all of the Housing Authority's deposits were insured or collateralized with securities held by the pledging financial institution in the Housing Authority's name. As of September 30, 2015, the Housing Authority's deposits were under-collateralized by \$1,302,191 and therefore were exposed to some custodial risk as defined above.

Investments - Investments are subject to credit risk, interest rate risk and custody risk. Credit risk is the risk that an issuer or other counterparty will not fulfill its obligations. Regarding the management of credit risk, it is the policy of the Housing Authority to follow the DHUD approved types of Investment as stated in Note 1, which limits the investments to obligations of the United States or its agencies and instrumentalities, Government Sponsored Entities, Mutual Funds registered with the SEC and invested only in United States obligations or other accounts insured by an agency of the United States or that are fully collateralized to insure the protection of the funds.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The Housing Authority's policy for NAHASDA funds is to generally follow the policy set forth by DHUD in 24 CFR 1000.58, which limits investments to a maximum of five years. Non-NAHASDA funds can be invested longer than five years in accordance with overall projected cash needs. At September 30, 2016 and 2015, none of the Housing Authority's investments were invested in securities having an original maturity of five years or longer.

For investments, custodial risk is the risk that in the event of the failure of the counterparty, the Housing Authority will not be able to recover the value of its investments in the possession of an outside third party. The Housing Authority policy provides that investments are held by third party custodians with whom the Housing Authority has custodial agreements in the Housing Authority's name or be held in the name of both parties by the Federal Reserve Bank.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

2. DEPOSITS AND INVESTMENTS (CONT'D)

Investments (Cont'd)-

The Authority's investments are measured and reported at fair value and are classified according to the following hierarchal input levels:

1. Level 1 – Unadjusted quoted prices in active markets for identical assets.
2. Level 2 – Quoted prices for similar assets, or inputs that are observable or other forms of market corroborated inputs.
3. Level 3 – Pricing based on best available information, including primarily unobservable inputs and assumptions market participants would use in pricing the asset.

Summary of Investments - The Housing Authority's investments are stated at fair value. A summary of the investments held at September 30, 2016, their maturities and their current credit rating are as follows:

Investment Type	Fair Value	Less Than 1	1-5	Credit Rating		Fair Value Hierarchy
				S&P	Moody's	
Money Market Funds	\$ 91,883	\$ 91,883	\$ -	(1)	(1)	NA
Federal Home Loan Mortgage Corporation	528,195	-	528,195	AA+	AAA	Level 2
Total	\$ 620,078	\$ 91,883	\$ 528,195			

A summary of the investments held at September 30, 2015, their maturities and their current credit rating are as follows:

Investment Type	Fair Value	Less Than 1	1-5	Credit Rating		Fair Value Hierarchy
				S&P	Moody's	
Money Market Funds	\$ 63,687	\$ 63,687	\$ -	(1)	(1)	NA
Federal Home Loan Mortgage Corporation	511,065	-	511,065	AA+	AAA	Level 2
Total	\$ 574,752	\$ 63,687	\$ 511,065			

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

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)
September 30, 2016 and 2015

2. DEPOSITS AND INVESTMENTS (CONT'D)

A reconciliation of the investments presented above to the investments as presented in the statements of net position follows:

	<u>2016</u>	<u>2015</u>
Investments as presented above	\$ 620,078	\$ 574,752
Plus: Certificates of Deposit reported as investments and restricted investments of which approximately 40% and 61% mature in one year or less and the remaining 60% and 39% in 1 to 5 years for 2016 and 2015, respectively	<u>8,125,209</u>	<u>13,476,385</u>
Total investments and restricted investments	<u>\$ 8,745,287</u>	<u>\$ 14,051,137</u>

The Investments are utilized for different purposes and as such, some are restricted as to their use and availability. This is summarized as follows:

	<u>2016</u>	<u>2015</u>
Unrestricted:		
General Operation	\$ <u>4,384,400</u>	\$ <u>9,022,055</u>
Restricted:		
MEPA Investments	3,826,288	4,509,198
Title VI Investments	<u>534,599</u>	<u>519,884</u>
Subtotal	<u>4,360,887</u>	<u>5,029,082</u>
Total Investments	<u>\$ 8,745,287</u>	<u>\$ 14,051,137</u>

The Investments that are designated as MEPA are internally restricted as they represent the amount of monies that are in the New Mutual Help Homebuyers Monthly Equity Payment Account at September 30, 2016 and 2015. The agreement with the Homebuyers is that the funds will be invested and any earnings will be applied to their account at least annually. When the Homebuyer accumulates enough equity in their account from various sources, then the funds attributable to MEPA and other sources will be released to the Housing Authority in payment of the home (see Note 7).

The Title VI Investments are externally restricted as part of the original Title VI loan agreement as collateral for the repayment of the Title VI loans.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

3. ACCOUNTS RECEIVABLE

Accounts receivable at September 30, 2016 and 2015, consisted of the following:

	<u>2016</u>	<u>2015</u>
Accounts receivable for insurance and other	\$ 283,702	\$ 258,534
Tenant loans receivable	<u>120,111</u>	<u>44,421</u>
Total accounts receivable	403,813	302,955
Accounts receivable-net	<u>\$ 403,813</u>	<u>\$ 302,955</u>

4. MORTGAGES RECEIVABLE – TITLE VI

The Housing Authority has receivables at September 30, 2016 and 2015, totaling \$15,457,449 and \$16,050,152, respectively, from individuals who are participating in the Title VI loan program. Each of these loans is secured by a mortgage on the property provided by the Housing Authority. The loans have an interest rate of 4% and are payable over 30 years. No allowance has been recorded as of September 30, 2016 or 2015 as the Housing Authority believes the amounts to be collectable or the houses can be reacquired quickly by the Housing Authority and the value will equal or exceed the amount of the loan. Also see Note 8.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

5. CAPITAL ASSETS

A summary of capital asset activity for fiscal year 2016 follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Construction in progress	\$ 4,900,299	\$ 15,465,610	\$ (15,662,397)	\$ 4,703,512
Land	11,168,107	15,626	(312,673)	10,871,060
Total capital assets not being depreciated:	<u>16,068,406</u>	<u>15,481,236</u>	<u>(15,975,070)</u>	<u>15,574,572</u>
Other capital assets:				
Buildings and improvements	126,828,487	19,085,744	(3,143,963)	142,770,268
Equipment	4,523,262	723,037	-	5,246,299
Total other capital assets, historical cost	<u>131,351,749</u>	<u>19,808,781</u>	<u>(3,143,963)</u>	<u>148,016,567</u>
Less accumulated depreciation for:				
Buildings and improvements	(68,946,131)	(4,616,689)	2,607,855	(70,954,965)
Equipment	(2,844,034)	(518,789)	-	(3,362,823)
Total accumulated depreciation	<u>(71,790,165)</u>	<u>(5,135,478)</u>	<u>2,607,855</u>	<u>(74,317,788)</u>
Other capital assets, net	<u>59,561,584</u>	<u>14,673,303</u>	<u>(536,108)</u>	<u>73,698,779</u>
Total capital assets, net	<u>\$ 75,629,990</u>	<u>\$ 30,154,539</u>	<u>\$ (16,511,178)</u>	<u>\$ 89,273,351</u>

Fiscal year 2016 “equipment” additions includes \$270,334 of automobiles and heavy equipment received from the Cherokee Nation at the time the Authority assumed administration of the Rehabilitation Program during 2016 from the Cherokee Nation.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

5. CAPITAL ASSETS (CONT'D)

A summary of capital asset activity for fiscal year 2015 follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets not being depreciated:				
Construction in progress	\$ 4,731,829	\$ 16,645,373	\$ (16,476,903)	\$ 4,900,299
Land	11,355,866	145,322	(333,081)	11,168,107
Total capital assets not being depreciated:	<u>16,087,695</u>	<u>16,790,695</u>	<u>(16,809,984)</u>	<u>16,068,406</u>
Other capital assets:				
Buildings and improvements	110,732,013	19,352,272	(3,255,798)	126,828,487
Equipment	5,103,033	617,490	(1,197,261)	4,523,262
Total other capital assets, historical cost	<u>115,835,046</u>	<u>19,969,762</u>	<u>(4,453,059)</u>	<u>131,351,749</u>
Less accumulated depreciation for:				
Buildings and improvements	(67,486,723)	(3,959,432)	2,500,024	(68,946,131)
Equipment	(3,609,644)	(361,016)	1,126,626	(2,844,034)
Total accumulated depreciation	<u>(71,096,367)</u>	<u>(4,320,448)</u>	<u>3,626,650</u>	<u>(71,790,165)</u>
Other capital assets, net	<u>44,738,679</u>	<u>15,649,314</u>	<u>(826,409)</u>	<u>59,561,584</u>
Total capital assets, net	<u>\$ 60,826,374</u>	<u>\$ 32,440,009</u>	<u>\$ (17,636,393)</u>	<u>\$ 75,629,990</u>

Fiscal year 2015 “building and improvements” additions includes \$825,494 of Title VI Program reacquired home inventory converted to Mutual Help Program units.

6. INVESTMENT IN LIMITED PARTNERSHIPS/JOINT VENTURES

The Housing Authority has utilized tax credit incentives provided by the Federal government to reduce the cost it would normally incur to provide low income housing to the elderly and other low income families. This was accomplished by participating in four partnerships which have built low income housing projects that qualified for Low Income Housing Tax Credits ("LIHTC") made available by the Federal government. The projects comprise 155 housing units and are managed by outside parties under management agreements as provided by the partnership agreements.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

6. INVESTMENT IN LIMITED PARTNERSHIPS/JOINT VENTURES (CONT'D)

These partnerships are accounted for as joint ventures utilizing the equity method of accounting. Separate audited financial statements of the partnerships/joint ventures are available upon request. The Housing Authority began entering into the limited partnerships in 2001 with a local nonprofit 501(C) 3 organization to build LIHTC rental properties, initially as a limited partner during the construction phase and then was converted to Special Limited Partner status at the end of construction period.

The Partnerships were created to provide a vehicle for use in benefiting from Low Income Housing Tax Credits, available through the Oklahoma Housing Finance Authority, as a means to obtain significant funding of the various housing projects, through the sale of the Tax Credits to qualified investors who then became the limited partners upon their investment into the partnerships.

For each of the projects, the Housing Authority committed to invest a certain amount of funds, contingent upon the award of the low income tax credits by the Oklahoma Housing Finance Authority.

The following summarizes the investments between the Housing Authority for each of the partnerships/joint ventures as of September 30, 2016:

<u>Type of investment</u>	<u>Jay Senior Housing</u>	<u>Stilwell Sr. Housing</u>	<u>Northview Estates</u>	<u>Wisdom Keepers</u>	<u>Total</u>
Note receivable	\$ 750,000	\$ 250,000	\$ 1,088,600	\$ -	\$ 2,088,600
Initial operating loan	30,000	30,000	51,400	50,000	161,400
Management fee loan	54,340	-	-	-	54,340
Discount	<u>(663,941)</u>	<u>(235,217)</u>	<u>(824,561)</u>	<u>(43,760)</u>	<u>(1,767,479)</u>
Notes Receivable, net	<u>170,399</u>	<u>44,783</u>	<u>315,439</u>	<u>6,240</u>	<u>536,861</u>
Capital Investment	<u>\$ 342,495</u>	<u>\$ 609,948</u>	<u>\$ -</u>	<u>\$ 426,016</u>	<u>\$ 1,378,459</u>

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

6. INVESTMENT IN LIMITED PARTNERSHIPS/JOINT VENTURES (CONT'D)

The following summarizes the investments between the Housing Authority for each of the partnerships/joint ventures as of September 30, 2015:

<u>Type of investment</u>	<u>Jay Senior Housing</u>	<u>Stilwell Sr. Housing</u>	<u>Northview Estates</u>	<u>Wisdom Keepers</u>	<u>Total</u>
Note receivable	\$ 750,000	\$ 250,000	\$ 1,088,600	\$ -	\$ 2,088,600
Initial operating loan	30,000	30,000	51,400	50,000	161,400
Management fee loan	54,340	-	-	-	54,340
Discount	<u>(677,025)</u>	<u>(240,263)</u>	<u>(860,107)</u>	<u>(44,463)</u>	<u>(1,821,858)</u>
Notes Receivable, net	<u>157,315</u>	<u>39,737</u>	<u>279,893</u>	<u>5,537</u>	<u>482,482</u>
Capital Investment	<u>\$ 342,503</u>	<u>\$ 609,951</u>	<u>\$ -</u>	<u>\$ 426,022</u>	<u>\$ 1,378,476</u>

The Notes receivable have a 31 year due date from issuance with no interest on the notes, with the exception of the note receivable from the Northview Estates partnership. The Northview note has an interest rate of 4.79%, which is the long-term annual AFR rate at the time of execution of the note. Payments on this note can be made based on the available prior years' cash flow as defined in the partnership agreement. Any unpaid accrued interest under this calculation will be due at the same time as the principal under the loan agreement, or 31 years from inception. The notes receivable and operating loans originally aggregated \$2,250,000 and have been discounted by \$2,157,000 to reflect an appropriate rate of return accorded similar investments, resulting in an initial balance of \$93,000. The discount is being accreted back to income over the 31 year term of the respective loans and the collectability is to be reevaluated annually.

The initial aggregate capital investment of \$1,390,000, net of the changes in the Housing Authority's equity accounts, is carried on the accompanying statement of net position as investment in partnerships/joint ventures and is adjusted on a go forward basis to reflect the changes to the Housing Authority's equity account in the partnerships/joint ventures. During FY-2016 and FY-2015, the Housing Authority's equity account decreased by \$17 and decreased by \$640, respectively, for its share of the partnerships/joint ventures net loss.

The Housing Authority, as a Special Limited Partner, has also entered into long-term lease agreements with three of the partnerships to provide land as a site for the Projects. Each lease is for \$1 per year for a term of 99 years. The Housing Authority's cost basis in this land and improvements was \$1,514,780 and has been expensed as the Housing Authority received no additional equity for its contribution to these projects.

Through September 30, 2005, the Housing Authority had received or recognized development fees of approximately \$990,000 as the co-developer of the four LITC projects. No additional development fees are to be recognized in the future for these projects.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

6. INVESTMENT IN LIMITED PARTNERSHIPS/JOINT VENTURES (CONT'D)

Condensed financial statements for each of these partnerships/joint ventures at December 31, 2015, and the fiscal year then ended follow:

	Jay Senior Housing	Stilwell Sr. Housing	Northview Estates	Wisdom Keepers	Total
<u>Balance Sheets</u>					
Current assets	\$ 85,343	\$ 149,752	\$ 217,788	\$ 202,569	\$ 655,452
Noncurrent assets	1,658,722	1,779,340	2,903,198	2,091,623	8,432,883
Current liabilities	112,402	40,500	420,971	63,466	637,339
Long-term liabilities	752,047	497,008	1,088,600	303,600	2,641,255
Net equity of the Authority	342,636	610,078	161	426,220	1,379,095
Net equity - others	536,980	781,506	1,611,254	1,500,906	4,430,646
<u>Profit and Loss</u>					
Operating revenue	\$ 170,803	\$ 184,766	\$ 193,597	\$ 171,099	\$ 720,265
Operating expense	(165,215)	(158,631)	(183,137)	(176,865)	(683,848)
Depreciation expense	(71,803)	(82,385)	(124,266)	(105,215)	(383,669)
Nonoperating - other	181	209	(51,761)	279	(51,092)
Net income (loss)	(66,034)	(56,041)	(165,567)	(110,702)	(398,344)

Audited financial statements are available from the partnerships/joint ventures upon request.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

6. INVESTMENT IN LIMITED PARTNERSHIPS/JOINT VENTURES (CONT'D)

Condensed financial statements for each of these partnerships/joint ventures at December 31, 2014, and the fiscal year then ended follow:

	Jay Senior Housing	Stilwell Sr. Housing	Northview Estates	Wisdom Keepers	Total
Balance Sheets					
Current assets	\$ 76,846	\$ 137,642	\$ 204,431	\$ 224,868	\$ 643,787
Noncurrent assets	1,730,525	1,844,333	3,027,464	2,173,198	8,775,520
Current liabilities	109,381	36,867	366,313	60,238	572,799
Long-term liabilities	752,340	497,483	1,088,600	300,000	2,638,423
Net equity of the Authority	342,642	610,084	178	426,232	1,379,136
Net equity - others	603,008	837,541	1,776,804	1,611,596	4,828,949
Profit and Loss					
Operating revenue	\$ 139,774	\$ 163,426	\$ 191,432	\$ 164,055	\$ 658,687
Operating expense	(156,798)	(160,281)	(160,293)	(151,652)	(629,024)
Depreciation expense	(80,833)	(95,645)	(125,939)	(105,318)	(407,735)
Nonoperating - other	160	230	(51,785)	258	(51,137)
Net income (loss)	(97,697)	(92,270)	(146,585)	(92,657)	(429,209)

Audited financial statements are available from the partnerships/joint ventures upon request.

The Housing Authority's Component Unit, Cherokee Affordable Housing ("CAH") is the only general partner in these partnerships and has a partnership interest of .005%. The Housing Authority is a Special Limited Partner with a partnership interest of .005%. The remaining 99.99% interest in each partnership is held by a Limited Partner that is a syndicated Tax Credit Fund LLC. These Limited Partners provide the majority of the financing for each of the projects in exchange for the Income Tax Credits and other tax deductions that are provided from the qualification and operation of the partnerships.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

6. INVESTMENT IN LIMITED PARTNERSHIPS/JOINT VENTURES (CONT'D)

In addition to the cash investments and other costs incurred in connection with the Limited Partnerships, the Housing Authority has provided a "Tax Credit Recapture Guarantee" to the Limited Partner (third-party syndicator of the tax credits) for each of the Partnerships should the Internal Revenue Service disallow the use of any of the tax credits to third-party investors by the Limited Partner. The Housing Authority and developer have also provided an "Operating Deficit Guarantee" which would require the Housing Authority and developer to provide capital for operations should the need arise.

7. TRUST LIABILITIES AND RELATED ASSETS

The Housing Authority has several lease-to-own homebuyer programs wherein the tenant/homebuyer may eventually purchase the house in accordance with contractual agreements. These transactions are similar to a financing lease, however are not accounted for as such as the amount and collectability of the minimum lease payments is not predictable. Until the time of transfer, these homes remain the property of the Housing Authority. The costs of these units are depreciated over the expected term of payoff at the time of the original agreement, generally 25 years. When the home is paid off in accordance with the agreements and title is transferred to the homebuyer, a gain or loss is recognized by the Housing Authority. For the years ended September 30, 2016 and 2015, a gain of \$377,480 and \$215,915, respectively, was recorded in connection with such transfers.

The Trust Liabilities reflected in the accompanying financial statements primarily includes a liability for funds that have been received from the tenants or homebuyers in the various lease-to-own programs operated by the Housing Authority. These funds are held in a trust type account to be applied to various uses, depending on the agreement with the tenant/homebuyer. The largest of the amounts included in this category are for accounts attributable to the New Mutual Help Housing Program wherein the tenant/homebuyers are credited with a portion of the funds that they have contributed as well as other amounts credited to them in accordance with DHUD requirements and program policies. Under the provisions of mutual-help occupancy agreements, tenant/homebuyers are required to make payments based on the family or household income. After deducting an administrative fee as set forth by DHUD, the remaining balance is credited to the participant's equity payment account ("MEPA"). The balance of the MEPA accounts, which are being held and invested by the Housing Authority on behalf of the New Mutual Help homebuyers, was \$3,389,949 and \$4,017,455 as of September 30, 2016 and 2015, respectively. These investments are presented as restricted investments in the accompanying Statement of Net Position. These MEPA Funds, along with other credits to these tenant/homebuyers totaled \$3,776,546 and \$4,456,949 at September 30, 2016 and 2015, respectively. Although these funds will generally be retained by the Housing Authority upon the transfer of home ownership to the tenant/homeowner, they are presented as a liability until then because the funds are effectively owned by the tenant /homeowner. Upon transfer of the home to the tenant/homeowner the funds will be considered revenue and applied to the carrying value of the related home and a gain or loss will be recorded by the Housing Authority.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

7. TRUST LIABILITIES AND RELATED ASSETS (CONT'D)

Additionally, at September 30, 2016 and 2015, other amounts included in this category include escrow deposits held by the Housing Authority associated with the Title VI program mortgages totaling \$14,099 and \$14,349, respectively, and low income housing tenants' security deposits of \$35,643 and \$37,900, respectively.

8. NOTES PAYABLE

NAHASDA Title VI Loan Program

In July of 2002, the Cherokee Nation (the "Nation"), the Housing Authority, Bank One, N.A. (now JPMorgan Chase Bank, N.A.) and the United States Department of Housing and Urban Development ("DHUD") entered into a Title VI loan agreement, under the authorization of the Native American Housing and Self Determination Act ("NAHASDA") whereby the Nation was authorized to borrow up to \$50 million from Bank One for the purpose of enabling the Housing Authority to construct single family residences within the Nation's 14 county jurisdictional area. The Title VI program allows tribal governments to pledge future grants toward repayment of the loan, thereby securing financing currently. On December 30, 2002, the Nation and the Housing Authority entered into a Supplemental Memorandum of Agreement ("SMOA") for the purpose of setting forth the procedures and the parties' agreement related to the disbursement, use, repayment, and handling of the funds obtained under the Title VI loan. The Nation serves as the recipient of the loan proceeds and advances funds to the Housing Authority as requested under the agreed procedures.

The Housing Authority provides construction or acquisition of housing for eligible participants using Title VI loan proceeds from the Nation. The participants enter into promissory notes and mortgage agreements with the Housing Authority for repayment of the principal and interest related to the assistance provided (see Note 4). All promissory notes, collateral, mortgages, etc. obtained by the Housing Authority in conjunction with the use of Title VI loan proceeds are pledged by the Housing Authority to the Nation as collateral for the repayment of the Title VI loan proceeds advanced to the Housing Authority by the Nation.

As part of its participation in the Title VI loan, the Housing Authority was required to deposit securities in escrow ("Pledge Account") with Bank One in an amount equal to five percent of the total loan authorization, or \$2,500,000. These securities are pledged as collateral for the Title VI loan to cover the portion of the loan balance not guaranteed by HUD's 95% "Certificate of Guarantee" provided to Bank One (now JPMorgan Chase Bank, N.A.) as part of the Title VI loan. The interest and dividends generated on these securities remains the property of the Housing Authority. The pledge remains in effect for 10 years beginning July 30, 2002. Then every two years thereafter, a request for release of a portion of the securities can be made. The securities pledged have a fair value of \$534,599 and \$519,884 at September 30, 2016 and 2015, respectively, and have been reported as restricted investments in the Statement of Net Position.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D) September 30, 2016 and 2015

8. NOTES PAYABLE (CONT'D)

NAHASDA Title VI Loan Program (Cont'd)

Additionally, as part of its participation in the Title VI loan program, the Housing Authority has committed to reimburse the Nation for any costs incurred by the Nation related to the Housing Authority not complying with the terms of the SMOA or the requirements of the Title VI program. The Housing Authority, through its signing of the SMOA, agrees to abide by all conditions specified in the Title VI loan agreement.

As collateral for the Title VI loan, the Nation has pledged all current and future grants for which the borrower becomes eligible under NAHASDA as well as program income directly generated from the use of the loan proceeds, program income derived from the sale or lease of real property acquired, rehabilitated or constructed with loan proceeds, and the securities deposited to the Pledge Account. Any program income generated from the above is required to be deposited into a "Loan Repayment Account" to serve as an additional source for payment of principal and interest related to the Title VI loan.

During FY-2016 and FY-2015, the Housing Authority did not receive any loan advances for the Title VI program. The cumulative amount of funds drawn on the available loan funds is \$33,231,000 at September 30, 2016 and 2015. The loan was divided into two separate "pools" which carry different interest rates over the life of the loan. Pool A was paid off as of September 30, 2013. Pool B, whose balance at September 30, 2016 and 2015 was \$3,588,155 and \$5,307,328, respectively, and carries a variable interest rate, reset monthly, derived from the 30 day LIBOR + 70 basis points, which at September 30, 2016 and 2015 was 1.27% and 0.92%, respectively. Pool B principal payments of \$100,150 began March of 2005 and are scheduled through June 1, 2022, plus interest. During FY-2016 and FY-2015, the Housing Authority made total principal repayments on Pool B of \$1,719,173 and \$1,791,639, respectively.

Claremore QuadPlex Note

During FY-2006, the Housing Authority borrowed \$151,500 for its costs related to the Claremore QuadPlex project. The loan is repaid in monthly payments, beginning February 1, 2006, of \$1,341 including principal and interest. The loan carries an interest rate of 6.75%. The final payment will be made on February 1, 2021. At September 30, 2016 and 2015 the loan balance was \$63,394 and \$76,570, respectively.

Assumable Mortgage Program ("AMP")

During FY-2007, the Housing Authority began its Assumable Mortgage Program. The Housing Authority has four hundred and forty loans outstanding used for the purchase of homes provided to program participants. Interest rates on the loans vary from 4% to 7.125% and are payable in monthly installments over thirty years. At September 30, 2016 and 2015 the total loan balance was \$29,247,434 and \$13,935,719, respectively.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

8. NOTES PAYABLE (CONT'D)

A summary of activity in the notes payable follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Amounts Due within One Year
Title VI Notes	\$ 5,307,328	\$ -	\$ 1,719,173	\$ 3,588,155	\$ 1,201,797
QuadPlex Note	76,570	-	13,176	63,394	12,466
AMP Notes	<u>13,935,719</u>	<u>15,643,515</u>	<u>331,800</u>	<u>29,247,434</u>	<u>532,623</u>
Totals	<u>\$ 19,319,617</u>	<u>\$ 15,643,515</u>	<u>\$ 2,064,149</u>	<u>\$ 32,898,983</u>	<u>\$ 1,746,886</u>

Future principal and interest payments related to the notes payable at September 30, 2016, are as follows:

Year Ending September 30	Principal	Interest	Total
2017	\$ 1,746,886	\$ 1,261,811	\$ 3,008,697
2018	1,771,186	1,249,123	3,020,309
2019	1,779,347	1,208,253	2,987,600
2020	621,339	1,173,565	1,794,904
2021	640,864	1,146,076	1,786,940
2022-2026	3,608,199	5,285,413	8,893,612
2027-2031	4,479,766	4,413,849	8,893,615
2032-2036	5,565,842	3,327,773	8,893,615
2037-2041	6,554,290	2,010,479	8,564,769
2042-2046	<u>6,131,264</u>	<u>559,819</u>	<u>6,691,083</u>
Totals	<u>\$ 32,898,983</u>	<u>\$ 21,636,161</u>	<u>\$ 54,535,144</u>

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

9. RISK MANAGEMENT

The Housing Authority is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees and natural disasters. Effective October 1, 2012, the Housing Authority and the Nation entered into a memorandum of understanding that provides the Housing Authority the ability to participate in the Cherokee Nation Risk Management Services ("CNRM") as a means of obtaining insurance coverage covering each of these risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Housing Authority. Total premiums paid to CNRM during fiscal years 2016 and 2015 were \$186,030 and \$144,615, respectively. Prior to October 1, 2012, the Housing Authority directly obtained commercial insurance coverage to address this risk of loss. Settlements have not exceeded insurance coverage in the past three years.

The Housing Authority participates in AMERIND Risk Management Corporation, ("AMERIND"), an insurance pooling arrangement wherein the risk of loss to the property and equipment of the Housing Authority is shared by a large number of Indian Housing Authorities in the United States. The Housing Authority has a deposit of \$208,428 with AMERIND to cover contingencies, which represents an interest in the operations of AMERIND and is included in other noncurrent assets in the accompanying financial statements. In addition, the Housing Authority pays an annual premium to cover losses and expenses.

AMERIND also has a program which provides insurance to low income Cherokee homeowners in the Nation's jurisdictional area. The Housing Authority facilitates this insurance program by administering required paperwork and making upfront payments to AMERIND. The Housing Authority collects these payments from home owners on a monthly basis throughout the year. The Housing Authority receives no fees or revenues for its assistance in this process and does incur losses to the extent that it pays in advance for insurance and is not reimbursed by the homeowner. During the fiscal years ended September 30, 2016 and 2015, the Housing Authority incurred losses of approximately \$13,557 and \$13,752 respectively, for insurance premiums paid but not recovered from the insured property owners.

10. EMPLOYEE BENEFIT PLANS

Effective October 1, 2012, the Housing Authority and the Nation entered into a memorandum of understanding which allows for the employees of the Housing Authority to participate in the health insurance and 401(k) retirement plans administered by the Nation.

The health insurance plan provides medical, dental, vision as well as other coverage to employees on the first day of employment and eligible dependents as defined by the plan. Premium co-pays are based on a sliding wage scale. Health insurance premiums paid to the Nation by the Housing Authority for fiscal years 2016 and 2015 totaled \$2,123,618 and \$1,823,475 respectively.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

NOTES TO FINANCIAL STATEMENTS (CONT'D)

September 30, 2016 and 2015

10. EMPLOYEE BENEFIT PLANS (CONT'D)

The employee 401(k) profit sharing plan allows eligible employees to defer from 1% to 50% of gross pay, subject to annual Internal Revenue Service limits. The Housing Authority matches the first 5% dollar for dollar and the next 4% fifty cents on the dollar up to 7%. During fiscal year 2016, total contributions by participants and total match contributions by the Housing Authority totaled \$380,836 and \$288,017, respectively. Additionally, during fiscal year 2015, total contributions by participants and total match contributions by the Housing Authority totaled \$292,750 and \$219,698, respectively.

11. RELATED-PARTY TRANSACTIONS

For the years ended September 30, 2016 and 2015, the Housing Authority and the Nation have the following related-party transactions due to their relationship with NAHASDA funding (see Note 1A). The Housing Authority has recorded \$22,762,030 and \$16,274,360 in grant revenue in 2016 and 2015, respectively, which is the result of pass through funding from the Nation in relation to the Nation's NAHASDA funding. Additionally, the Housing Authority has recorded grant revenue totaling \$24,748 related to Self-Governance Funding received from the Nation for use in providing housing rehabilitation services. Also, the Housing Authority has recorded as "Other Income", \$283,020 of non-federal funds received from the Nation for use in providing housing services. Also see Note 9 and Note 10.

12. COMMITMENTS, ECONOMIC DEPENDENCY, AND CONTINGENCIES

As discussed in Note 6, the Housing Authority has provided a "Tax Credit Recapture Guarantee" to the Limited Partners of the various Limited Partnerships (third-party syndicator of the tax credits) should the Internal Revenue Service disallow the use of any of the tax credits being marketed to third-party investors by the Partnership. The aggregate tax credits provided through these partnerships was approximately \$13,600,000. The Housing Authority has also provided an "Operating Deficit Guarantee" which would require the Housing Authority to provide capital for operations should the need arise. To date, the Housing Authority has not been required to provide any "Deficit Guarantee" funding, and management of the Housing Authority does not believe funding for Deficit Guarantee or Tax Credit Recapture will be required in the future.

A large part of the Housing Authority's revenues were from federal awards, which were passed through the Cherokee Nation under Memoranda of Agreement. These are subject to availability of funds, authorization by the Cherokee Nation and the Housing Authority's compliance with those agreements and federal rules and regulations.

The Housing Authority administers various federal programs. These programs are subject to audit and adjustments by the awarding agencies and other organizations. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable program. The amount, if any, of expenses disallowed cannot be determined at this time. The Housing Authority expects such amounts, if any, to be immaterial. The management of the Housing Authority is unaware of any lawsuits or other contingencies that may cause unforeseen additional costs.

**HOUSING AUTHORITY OF THE
CHEROKEE NATION OF OKLAHOMA**

**SINGLE AUDIT REPORTS
AND SUPPLEMENTARY SCHEDULES**

SEPTEMBER 30, 2016

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

TABLE OF CONTENTS

PAGE

SINGLE AUDIT REPORTS AND SUPPLEMENTARY SCHEDULES:

Reports related to financial statements of the reporting entity

Required by GAO *Government Auditing Standards*:

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	1
---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	---

Reports related to Federal Assistance Programs Required by the Uniform Guidance:

Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance, and Report on the Schedule of Expenditures of Federal Awards Required by the Uniform Guidance	3
Schedule of Expenditures of Federal Awards	5
Schedule of Findings and Questioned Costs	6
Schedule of Prior Audit Findings	8



INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Commissioners of the
Housing Authority of the Cherokee Nation of Oklahoma

We have audited, in accordance with the 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, the financial statements of the Housing Authority of the Cherokee Nation of Oklahoma (the "Housing Authority"), a component unit of the Cherokee Nation, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements, and have issued our report thereon dated February 22, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Housing Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Housing Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Housing Authority's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Housing Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Housing Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Arledge & Associates, P.C.

February 22, 2017



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE;
AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE
UNIFORM GUIDANCE

To the Board of Commissioners of the
Housing Authority of the Cherokee Nation of Oklahoma

Report on Compliance for Each Major Federal Program

We have audited the Housing Authority of the Cherokee Nation of Oklahoma's (the "Housing Authority"), a component unit of the Cherokee Nation, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016. The Housing Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Housing Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Housing Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Housing Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Housing Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2016.

Report on Internal Control over Compliance

Management of the Housing Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above.

In planning and performing our audit of compliance, we considered the Housing Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Housing Authority's internal control over compliance.

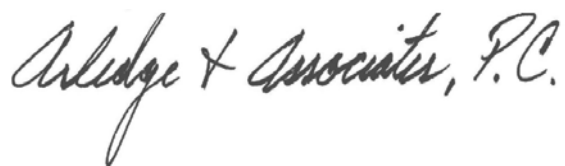
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

We have audited the financial statements of the Housing Authority, a component unit of the Cherokee Nation, as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Housing Authority's basic financial statements. We issued our report thereon dated February 22, 2017, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the 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 schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



February 22, 2017

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

<u>FUND SOURCE</u>	<u>GRANT NAME</u>	<u>GRANT NUMBER</u>	<u>FEDERAL CFDA NUMBER</u>	<u>GRANT AWARD</u>	<u>CURRENT YEAR GRANT EXPENDITURES</u>	<u>GRANT BALANCE 9/30/2016</u>
U.S. Department of Housing and Urban Development:						
(Pass-through from the Cherokee Nation)	Indian Housing Block Grants	55IT4005780	14.867	\$ 23,238,122	\$ 22,762,030	\$ 476,092
	Sub-Total			23,238,122	22,762,030	476,092
	Total Department of Housing and Urban Development			23,238,122	22,762,030	476,092
U.S. Department of the Interior - Bureau of Indian Affairs:						
(Pass-through from the Cherokee Nation)	Tribal Self Governance Compact	GT-OSGT905-16	15.022	139,358	24,748	114,610
	Sub-Total			139,358	24,748	114,610
	Total Department of the Interior			139,358	24,748	114,610
	Total Expenditures of Federal Awards			\$ 23,377,480	\$ 22,786,778	\$ 590,702

**NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2016**

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards ("SEFA") is a summary of the Housing Authority's federal award programs for the year ended September 30, 2016. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards* (Uniform Guidance).

NOTE B: SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the SEFA are reported on the accrual basis of accounting. Such expenditures are recognized following, as applicable, either the cost principles in Office of Management and Budget Circular A-87, *Cost Principles for State, Local, and Indian Tribal Governments* or the cost principles contained in Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Housing Authority has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE C: NON CASH AWARDS

The Housing Authority of the Cherokee Nation of Oklahoma receives additional federal assistance in the form of a loan guarantee as a sub-recipient of Title VI loan proceeds passed through from the Cherokee Nation. The loan guarantee is provided through the Title VI Federal Guarantees for Financing Tribal Housing Activities program - CFDA # 14.869. The ending loan balance at 9-30-2016 was \$3,588,155.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended September 30, 2016**

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:
Material weakness(es) identified? _____ yes X no
Significant deficiency(ies) identified
not considered to be material weaknesses? _____ yes X none reported

Noncompliance material to financial statements noted? _____ yes X no

Federal Awards

Internal Control over major programs:
Material weakness(es) identified? _____ yes X no
Significant deficiency(ies) identified
not considered to be material weakness(es)? _____ yes X none reported

Type of auditor's report issued on compliance
for major programs: Unmodified

Any audit findings disclosed that are required
to be reported in accordance with
2 CFR 200.516(a)? _____ yes X no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
14.867	Indian Housing Block Grants

Dollar threshold used to distinguish
between Type A and Type B programs: \$ 750,000

Auditee qualified as low-risk auditee? X yes _____ no

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONT'D)
Year Ended September 30, 2016**

SECTION II - FINANCIAL STATEMENT FINDINGS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.

SECTION III - FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

Compliance Findings

There are no findings requiring reporting under this section.

Internal Control Findings

There are no findings requiring reporting under this section.

HOUSING AUTHORITY OF THE CHEROKEE NATION OF OKLAHOMA

SCHEDULE OF PRIOR AUDIT FINDINGS Year Ended September 30, 2016

Compliance Findings

None to be reported for September 30, 2015 period.

Internal Control Findings

Finding 2015-01 Cash Collateral

Criteria: The Housing Authority Investment Policy requires that bank deposits that exceed federal deposit insurance limits be secured by acceptable pledged collateral.

Condition: At September 30, 2015, the Housing Authority had deposits at two financial institutions that collectively were uninsured/under collateralized by \$1,302,191.

Cause and Effect: The Housing Authority did not monitor deposit balances sufficiently to ensure that deposits were adequately collateralized. The Housing Authority is not in compliance with its investment policy and is exposed to custodial credit risk without appropriate collateralization.

Recommendation: We recommend the Housing Authority review its collateral arrangements with its financial institutions and assess the sufficiency of procedures in place over the monitoring of collateralized balances.

Housing Authority's Response: We contacted the two banks and obtained pledge statements of collateral, effective February 2016.

Current year status: This finding has been corrected in the current period.