



Council of the Cherokee Nation

Meeting Minutes

Friday, April 27, 2007

3:00 PM

Legislative Colnference Room

CALL TO ORDER

Chair Bill John Baker called the meeting to order at 3:00 p.m.

INVOCATION

Councilman Keener gave the invocation.

ROLL CALL

Present 16 - Bill John Baker; Audra Smoke-Conner; S. Joe Crittenden; Jackie Bob Martin; David Thornton Sr. ; Phyllis Yargee; Don Garvin; Linda Hughes-O'Leary; John F. Keener; Meredith Frailey; Cara Cowan Watts; William G. "Bill" Johnson; Buel Anglen; Charles "Chuck" Hoskin; Taylor Keen and Jack D. Baker

Absent 1 - Melvina Shotpouch

APPROVAL OF MINUTES

Councilor O'Leary moved for the approval of the minutes of the March 30th regular session with correction of Councilor Martin being present. Councilman Martin seconded the motion. Motion carried.

REPORTS:

Financial Report/Secretary-Treasurer Report:
Tamyse Leake

Tamsye Leake reported they are currently reviewing the first half of fiscal year 2007 financials for the Cherokee Nation and making the corrections they need. They are also gearing up for the FY 2008 budgets which are due to their office by May 11th, 2007. The financial report shows assets are up by 23%, liabilities are up 10% and this is mainly due to the bonds payable, revenues are up 44% from 2006, expenditures are up 31% from last year which is due to the large payoff from the health construction projects.

Cherokee Nation Enterprise:

David Stewart

Shaun Slayton reported for the month of March CNE set an all time record for profits for the company. The Roland Travel Plaza will open on May 8th and they have postponed the expansion of the Roland Casino on the East side for a month or two while they review some options for other alternatives. The parking garage is scheduled to open the first week of June and the problems they had have been resolved to everyone's satisfaction at no cost to CNE. Employment percentages are holding at 72% Native American with 58.8% being Cherokee and 28% non-Native American.

Cherokee Nation Industries:

Dennis McLemore

Dennis McLemore reported accounts receivable is at \$18 million, net investments are \$85 million, accounts payable are \$10 million, net assets are \$10 million, and year to date for the income is \$70 million dollars in sales and profit is running at \$1.5 million through the end of February. Based on the average sales of \$8 million per month they will probably break \$100 million this year on their sales figure. Councilor Frailey inquired about the implementation of the Bell contract. Brian Collins stated the Bell implementation team is in the process of writing a long term agreement and they should have it within two weeks and it will mean approximately thirty new jobs. Mr. Collins reported operations wise the AT&T purchase of Cingular and Bell South has opened up their footprint of states for the telecom division and potential for growth in that division is great. They also just recently received their premiere status with Sysco and they are one of three providers in the State of Oklahoma. They have over 300 employees in Stilwell.

Historical Society:

Carey Tilley

Carey Tilley reported they are in the first quarter of their fiscal year which is a slow time for them and it has also slowed down the pace of paying off the long term debt. They will be kicking off a fundraising initiative that will run through mid-June. They have their development staff in place as of February. They are currently working on an Ancient Village Reunion for all former workers for the date of June 30th. Tonight is the reception for the opening of Trail of Tears Art Show which is an open show with a Native American theme and the Awards Ceremony will be tomorrow at noon.

Cherokee Nation Business:

Callie Catcher

Brad Carson, Chief Executive Office of Cherokee Nation Businesses stated he does not have a detailed report for the Council but he would answer any questions they may have. He will also try to meet with each Council Member over the next few weeks to discuss Cherokee Nation Business activities. He commented that he took this job because he strongly believes what they do at CNB can be an important part not only of Cherokee Nation life but in revitalizing Northeast Oklahoma. The workout of Cherokee Connex is still on pace and they are scheduled to make their final payment at the end of July. CNB has a strong security position so there is every reason to expect the timeliness of that payment. Cherokee Connex has received \$400,000 dollars in payment so far and the next payment is \$1.55 million to complete the workout of \$2 million dollars. If in that extraordinary rare moment they do not receive that payment they have a security position where they are over collateral so they will recover that money.

Councilman Crittenden moved to amend the agenda to add as item #5 under new business the Indian Housing Plan that passed through the Community Services Committee due to a change in the amount of the grant. Councilor O'Leary seconded the motion. Motion carried.

COMMUNITY ASSISTANCE

<i>Colcord Emerg. Mgmt. Team</i>	<i>\$500</i>	<i>Councilor O'Leary</i>	
<i>Oaks T-Ball Team</i>	<i>\$500</i>	<i>Councilor O'Leary</i>	
<i>Kansas High School</i>	<i>\$500</i>	<i>Councilor O'Leary</i>	
<i>Kansas High School</i>	<i>\$824</i>	<i>Councilor Shotpouch</i>	
<i>Vian High School</i>	<i>\$500</i>	<i>Councilor's Yargee/Thornton</i>	<i>\$250 ea.</i>
<i>Braggs Public Schools</i>	<i>\$600</i>	<i>Councilor Garvin</i>	
<i>Wagoner Public Schools</i>	<i>\$600</i>	<i>Councilor Garvin</i>	

Webbers Falls Public Schools	\$600	Councilor Garvin	
Muskogee Public Schools	\$600	Councilor Garvin	
Ft. Gibson Public Schools	\$600	Councilor Garvin	
Okay Public Schools	\$600	Councilor Garvin	
Warner Public Schools	\$600	Councilor Garvin	
Porum Public Schools	\$600	Councilor Garvin	
Warner Public Schools	\$2700	Councilor Garvin	
Washington County Cherokees	\$1000	Councilors Johnson/Anglen	\$500 ea.
Washington County Adult Ctr.	\$1000	Councilors Johnson/Anglen	\$500 ea.
New Hope Indian Methodist Church	\$2500	Councilors Johnson/Anglen	\$1250 ea.
CN Immersion Classes	\$650	Councilors Crittenden/Martin	\$325 ea.
Nowata Public Schools	\$500	Councilor Hoskin	
Vinita Public Schools	\$1500	Councilor Hoskin	
Ketchum Public Schools	\$500	Councilor Hoskin	
Bluejacket Public Schools	\$1000	Councilor Hoskin	
White Oak Public Schools	\$1000	Councilor Hoskin	
Vian High School	\$450	Councilor Thornton	
Warpony	\$330	Councilor Keener	
Peavine Public School	\$1200	Councilor Crittenden/Martin	\$600 ea.
Marble City Food Pantry	\$1000	Councilor Yargee	
Sperry Kiwanis Club	\$500	Councilor Anglen	

Councilman Martin moved for the approval. Councilman Garvin seconded the motion. Motion carried.

LAW ENFORCEMENT REQUESTS

Locust Grove Police Department	\$5300	Councilor Keener	
Langley Police Department	\$5000	Councilor Keener	
Disney Police Department	\$5200	Councilor Keener	
Town of Adair	\$5000	Councilor Keener	
Cherokee State Park	\$5000	Councilor Keener	
Jay Police Department	\$11,000	Councilor Shotpouch	
Delaware County Sheriff's Office	\$10,000	Councilor O'Leary	
Marble City Police Department	\$4,742.82	Councilors Yargee/Thornton	\$2371.41ea
Ramona Police Department	\$11,342	Councilor Johnson	
Okay Police Department	\$3,052.65	Councilor Garvin	
Jay Police Department	\$5342	Councilor O'Leary	
Afton Police Department	\$2000	Councilor O'Leary	
Colcord Police Department	\$2000	Councilor O'Leary	
Kansas Police Department	\$2000	Councilor O'Leary	

This matter was Approved as Submitted

OLD BUSINESS

1. CHEROKEE NATION BENEFIT ANALYSIS (DISCUSSION)

Chair Bill Baker stated the Nation has moved to Blue Cross and Blue Shield and for the analysis process to continue they will have to start from the beginning.

Councilor Hoskin moved to table this item permanently until it is brought up at a later date. Councilor O'Leary seconded the motion. Motion carried.

Councilor Hoskin made a motion to request Doug Evans to present the Council with an analysis on the benefits of Blue Cross and Blue Shield. Councilor O'Leary seconded the motion. Motion carried.

NEW BUSINESS

1. Attorney General Report - GEG Investigation

Diane Hammons, Attorney General stated she was unaware this item was on the agenda until yesterday and since she does not have anything prepared to report she will take any questions the Council may have. Councilor O'Leary requested a status report on the investigation. Diane Hammons stated the law enforcement investigation is still pending and she is limited on what she can report. She did report she requested a law enforcement investigation by the Marshal Service sometime back and it has been initiated. The Marshal Service has requested assistance from the Federal Authorities on the investigation and it is still pending. James Frazier is the Marshal to contact for this investigation. Cherokee Nation criminal jurisdiction is limited to how we can punish people up to a year or \$5000 dollars and Cherokee Nation cannot prosecute anyone who is not Indian so when an investigation into anything is commenced and for some reason the Marshal's need the assistance of the Federal Investigators to help gather evidence because they do not have the capacity to gather the evidence or non-Indians may be involved or federal crimes may be involved they contact Federal prosecutors and a Federal investigation commences. This does not mean the Marshal's stop the work, it only means they will be assisting the Federal investigation.

Councilor Hoskin made a motion to keep this ongoing item on the agenda under reports. Councilor O'Leary seconded the motion. Motion carried.

Councilor Crittenden moved to amend the agenda to discuss a health issue with the Muskogee joint venture. Councilor Garvin seconded the motion. Councilor Hoskin offered a friendly amendment to add possible action. Councilor Crittenden accepted the friendly amendment. Motion carried.

2. AN ACT AMENDING LEGISLATIVE ACT #26-06 AUTHORIZING THE COMPREHENSIVE BUDGET FOR FISCAL YEAR 2007 - Mod. 7; AND DECLARING AN EMERGENCY

Councilor Keen made a motion to approve mod 7 excluding the \$520,000 for funding of the Vann Litigation. Councilor O'Leary seconded the motion. Councilor Cowan Watts called for point of order and stated the motion was inappropriate according to Roberts Rules of Order because Council has voted on the \$520,000 in separate committee and from that committee it should have gone to full council. Todd Hembree stated this item has been approved by committee and it is to be on full council in mod 7, therefore when it gets to full council mod 7 can be passed as is or exclude this item at full council but the committee action has already taken place and \$520,000 dollars has been approved by the Executive & Finance Committee and that attaches as a writer to the next budget modification which is mod 7 and what will be passed today. If the Council wishes to debate the merits of the \$520,000 dollars, the proper place to do that would be at full council. Councilor Keen withdrew his motion.

Councilor Cowan Watts made a motion to approve mod 7 as provided in writing today with the exception of the actual motion passed in the special Executive & Finance meeting, that language and narrative of the \$520,000 be included and not this language. Councilor Jack D. Baker seconded the motion.

Callie Catcher requested the second item under General Fund for Meth Reduction – Family Initiative Marshals for \$210,076 be withdrawn from mod 7 at this time due to a correction to the Marshals NAHASDA budget that did not make it into this mod. This will be brought back to the next committee with the full reconciliation of all the Marshals funding sources.

Councilor Frailey made a motion for an amendment to pull the \$210,076. Councilor O'Leary seconded the motion. Motion carried.

Councilor O'Leary expressed concern on item #5, General Fund Operations showing a total carryover from FY 06 of \$36,576,000. Doug Evans stated \$12 million was not appropriated by the end of September. It came onto the table as available revenues to be appropriated late in the fiscal year so \$12 million of the carryover could not have legally been spent because it was not legally appropriated. He has already requested an analysis by the Treasurers Office and she has prepared a draft analysis, visited with him on it and is finalizing the analysis on questions they have dialogued back and forth about. As soon as he receives the report he will have information to analyze. Callie Catcher stated the \$36 million is an increase from last year in the unreserved fund balance of about \$12 million and as Doug mentioned \$12 million had not been appropriated so it was not available to spend. \$8 million was the result of various general fund revenues being more than they had budgeted so \$20 million was not available to spend and then several of the other items in the budget were project related. She will get the complete details to the Council of the approximate \$15 million and the break down of what was budgeted but was not expendable.

Councilor O'Leary requested a follow-up report on this next month.

Chair Bill Baker called for the question on the motion for approval of mod 7 less the \$210,000 dollars. Roll call is as follows:

Yea: 13 - Bill John Baker; Audra Smoke-Conner; S. Joe Crittenden; Jackie Bob Martin; David Thornton Sr. ; Phyllis Yargee; Don Garvin; Meredith Frailey; Cara Cowan Watts; Buel Anglen; Charles "Chuck" Hoskin; Taylor Keen and Jack D. Baker

Nay: 1 - Linda Hughes-O'Leary

Not In Room: 2 - John F. Keener and William G. "Bill" Johnson

3. MFT & MVT Road & Bridge Project Requests for FY2007.

No requests to report.

4. CNI Audit

Brian Collins stated he was not aware this item was on the agenda and he did not come prepared but he and Mr. McLemore will answer any questions the Council may have. Councilor O'Leary requested an overview without the Council asking specific questions on the audit. Brian Collins stated the audit was provided to Doug Evans and it is his understanding that Mr. Evans is reviewing and distributing to the Council with his findings or his observations of the audit.

Councilor O'Leary requested to read a Cherokee Nation news release into the record that is titled "Cherokee Nation Industries Releases Year-End Financials", Stilwell, Oklahoma. The article Cherokee Nation Industries reported a record year of sales in the recent release of its 2006 financial statement. Sales topped \$99 million with much of the growth coming from CNI's new construction division. Operating income totaled nearly \$600,000 despite write-offs for obsolete inventory. We are on the right track said Brian Collins, Acting CEO of CNI. Our manufacturing, telecommunications, staffing services, and construction management divisions were all strong contributors to CNI's record sales. The Construction group was added this past year and is off to a strong start. The future looks good. The Stilwell based company also reported regular employment numbers,

adding 109 new employees between 2005 and 2006 at the company's Tahlequah and Stilwell facilities. Total employment in those areas now totals 262. It is important for us to create quality jobs as our company grows, said David Ballew, Chairman of CNI's Board of Directors. Profitability is one measure of our success and creating jobs in Northeastern Oklahoma is another. Ballew emphasized that CNI's core business remains successful, while addressing the one-time adjustments resulting from investments in energy technology Companies that caused an overall loss for the year. While we believe CNI could receive significant value in the future for the investments, the board and management team, in cooperation with our external auditors, have chosen to present a conservative financial statement and reduce the value of these investments to zero, Ballew said. We believe these adjustments go hand-in-hand with several changes we have made in the past year, including strengthening internal controls, and repositioning the management team. We have also shifted the focus back to the expansion of CNI's core businesses. CNI's recent performance in core industries indicates a strong upward trend for the company. CNI's manufacturing division has been awarded several multi-year, multi-million dollar contracts since the end of the last fiscal year. Cherokee Nation Construction Management, CNI's construction division, recently completed the new multi-million dollar multi-purpose center at Sequoyah Schools in Tahlequah and is overseeing construction of the Cherokee Nation's new health care clinics in Muskogee, Nowata, and Sallisaw. Because of the growth in aerospace and defense manufacturing and distribution we have been investing in our employees, equipment and facilities, Collins said. I believe that CNI is poised for some of the largest growth since its inception in 1969 and its employees should take great pride in being a part of this organization, Ballew said. In January of 2007, CNI generated more operating income than we did for the entire previous fiscal year. We have also improved our net equity in the company by approximately \$2 million since the end of the audit period. CNI and its affiliated companies are wholly-owned by the Cherokee Nation. CNI was incorporated in 1969 to serve as the economic and workforce development arm for the Cherokee Nation. The company has more than 30 years contracting and distribution experience in the aerospace, defense and telecommunication industries. For more information on Cherokee Nation Industries, visit the company's website at www.cnicnd.com.

Chair Bill Baker stated he requested Doug Evans to look at the press release and audit and make some observations of the two and at this time he asked Mr. Evans to reveal those observations to the Council. Doug Evans stated in reviewing the audit for CNI he was asked to perform a very highlight analysis of what that audit meant to him as a reader. He broke the analysis down into three categories, an operational highlight, investing financing highlight. Councilor Cowan Watts stated before Mr. Evans proceeds she would like him to clarify what he means by as a reader, is that you in your CPA role and standard practices of businesses. Doug Evans stated there is no standard practice for him to read an audit, he was asked for his professional opinion about reading the audit and if he would address highlights in there and compare it to what the press release said. He is not going to get into subjective debate whether that press release was fairly representing the financial performance of the company, that's not his job. The independent auditors picked up things we didn't as they pertain to internal control, violations, reportable conditions that could avail material misstatements for the financial statements. There were four reportable conditions that were issued in that audit and he doesn't know if everyone was informed of these. From an operational perspective Operating Revenue increased by \$16 million; however, operating expenses more than offset the revenue growth by increasing by \$19 million. This resulted in a decrease in operating income compared to the previous year of \$3.3 million or 85%. The year ended with its operating income of only \$575k or 0.5% of revenue primarily due to the medical service brokering segment of the company ending with an operating income level of \$581k. Cash flows provided by operations totaled only \$12k for the year. The

manufacturing segment operated at a \$179k loss. The company's total Net Assets decreased in 2006 by \$4.6 million or 35% of its previous year's net worth level. The company's debt increased by \$5.6 million or 69% to finance the investments in GEG and Idling Solutions which ultimately were written off at the end of the year which accounts for the decrease in net worth. These write-offs totaled \$4.8 million. Accordingly, the company's debt-to-equity ratio took a double hit by a \$5.6 million increase in debt while taking a hit to the equity by \$4.6 million. CNI's debt-to-equity ratio significantly increased from .99 in 2005 to 2.2 in 2006. These write-offs have resulted in CND having a negative net worth at the end of 2006. The independent auditors noted 4 reportable conditions and also considered them to be material weaknesses. These material weaknesses can lead to misstatements caused by either error or fraud in the financial statements. A material weakness in internal control should be highly regarded and addressed by the management. The board of directors has a trustee responsibility to minimize any conditions and enable management be availed necessary resources to correct such conditions. Three conditions have to do with segregation of duties and conflicts of interest (06-1, 06-2, and 06-3). CNI management feels the recommended changes are not cost beneficial and has no plans of correcting these internal control weaknesses. The fourth material weakness deals with the governing body establishment of policies and monitoring actions of management. It appears this condition has been acknowledged and is being addressed by CNI's board.

Councilor O'Leary requested a detailed report on this item next month.

Councilor Frailey requested Brian Collins for his report to give answers to the Council to Doug Evans highlights and explain them to his satisfaction or work with him. Brian Collins stated their overall intent is to raise the level of integrity, credibility and confidence. It is very important to them to meet the Council's requirements and approvals.

Councilor Cowan Watts requested a copy of Mr. Evan's analysis be provided to the CNI Board for their review.

Councilor Hoskin moved to table this issue and put it back on next months agenda. Councilor Cowan Watts seconded the motion. Motion carried.

5. A RESOLUTION APPROVING AND AUTHORIZING THE SUBMISSION OF THE AMENDED FISCAL YEAR 2007 INDIAN HOUSING PLAN TO THE U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

Councilor Cowan Watts moved for the approval of the 2007 IHP. Councilor Crittenden seconded the motion. Motion carried.

6.

HEALTH BUDGET:

Melissa Gower stated the reason this is time sensitive is to get the operational dollars for 2007. When they signed the joint venture agreement with Indian Health Service they stated in the agreement that the facility was going to be completed in August 2007. This means they get two months of operational dollars from Indian Health Service for staffing dollars and if they don't get the facility completed in August the staffing and operational dollars are forfeited which will hurt Cherokee Nation and the amount is anywhere from \$2.2 million to \$3.4 million. Due to the additional bond fees and a shortage of equipment money, they are requesting this budget modification in the amount of \$2,620,815 to complete the Muskogee Clinic.

Councilor Hoskin stated he would like for Doug Evans to have an opportunity to look at this budget modification. He would also like an overview or better explanation of the overrun costs.

ANNOUNCEMENTS

ADJOURNMENT

Council member Cowan Watts moved to recess till 4:00 p.m. on Monday, May 14th. Councilman Martin seconded the motion. Motion carried.

STAFF PRESENT:

<i>Tamsye Leake</i>	<i>Melanie Knight</i>	<i>Doug Evans</i>
<i>Callie Catcher</i>	<i>Jim Redcorn</i>	<i>Melissa Gower</i>
<i>Nason Morton</i>	<i>Tom Elkins</i>	<i>Diane Hammons</i>
<i>Mike Miller</i>	<i>Denise Honawa</i>	<i>Darlene Foreman</i>

VISITORS PRESENT:

<i>Dennis McLemore</i>	<i>Carey Tilley</i>	<i>Brian Collins</i>
<i>Todd Hembree</i>	<i>Susan Ruckman</i>	<i>Charles Dry</i>
<i>Shaun Slayton</i>	<i>Brad Carson</i>	<i>Freddie Ferrell</i>
<i>Chrissie Moore</i>		

APPROVAL / DISTRIBUTION

Minutes submitted by: Gayle Miller, Recording Secretary

Motion to approve minutes made by: _____

Minutes attested and concurred by: _____

Date: _____