

Osage LLC and Tallgrass Economic Development LLC
4500 S. 129th E. Ave. Suite 105, Tulsa OK 74134
Tel 918.582.5633
www.tallgrass-osage.com



ANNUAL REPORT

FY 2015

Opportunities don't happen. You create them – Chris Grosser

TABLE OF CONTENTS

TOPIC	PAGE
Letter to Stakeholders	1
Company Information	3
Contact Information and Transition	6
Independent Auditor Report and Financial Statements	Ex A

LETTER TO STAKEHOLDERS

To Our Stakeholders

STRATEGIC HIGHLIGHTS

We believe that a successful business is built around a clear vision executed by experienced and ethical individuals operating in an environment of meticulous planning, accountability, and teamwork. Further, we believe the resulting product/service must be delivered in a manner that exceeds our customers' expectations. We are ready to close the door on the past and move forward, focusing on the assets that remain in our company (cash and the current 8(a) status of two subsidiaries) and build upon the opportunities afforded us as a tribally-owned business.

The current board, CEO, and CFO have been in place for approximately a year. Each of us joined the team because we believe the goal of building a profitable tribally-owned business is a wise decision on the part of the Osage Nation - it is achievable, and we have the experience to build and execute a plan to help accomplish this goal. Unfortunately for all concerned, there were difficulties to deal with as we began this journey. The lack of a cohesive investment strategy on the part of the previous board and management, led to a wide range of differing investments, without the proper development of staff who could analyze or manage those investments. The result was the loss of approximately 90% of the capital which was contributed. Significant time and effort was required to wind-down unprofitable operations and restructure the organization. When completed this resulted in reduced operating expenses of \$1.5M in 2015 in comparison to 2014.

FINANCIAL HIGHLIGHTS

Unrestricted cash at the end of year totaled \$1,432,150, with an additional \$1,500,000 restricted for bonding purposes. Although 2015 experienced an \$806,832 net loss, we reduced expenses almost \$1,300,000 from 2014 and the net loss was reduced by \$777,700. These reductions are a result of closing unprofitable subsidiaries and right sizing expenses for corporate overhead.

OPERATING HIGHLIGHTS

In 2015, we focused on changes required in all areas of the company, many of those changes were fundamental, the design and implementation of company policies and procedures, the implementation of internal controls, the implementation of a cohesive communication system between management and the board. These changes are the cornerstone for the development of our Company. A few of the accomplishments include:

- Successful wind down of poorly performing companies that were inherited by the board and management team. To this point, the wind down has resulted in approximately \$400k of cash to Osage, LLC, which will be invested in future operations.
- Development of a successful business plan and strategy that takes advantages of our tribal advantages and meets the needs of our shareholder

LETTER TO STAKEHOLDERS

- Creation of a vision (financial return, jobs creation, level of investment risk, industries to invest in) that is supported by our shareholder.
- Recruitment of experienced Board members involved in all key decisions
- Implementation of Board governance procedures and committees
- Implementation of a robust due diligence process with experienced personnel who can execute the due diligence procedures.
- Development and implementation of policies/procedures that guide decision-making and actions.
- Implementation of budgeting and forecasting systems for use in day to day management, as well as board level strategy sessions.
- Open dialogue between the Board/management and the shareholder
- Identification of new partnerships that bring value to our 8(a) subsidiaries

LOOKING AHEAD

With these measures in place, the board and management team are focused in 2016 on launching Tallgrass as the path forward for all of our businesses. There will, of course, be an appropriate period of transition from Osage LLC to Tallgrass. All of our customers and partners will be carefully educated as to the reasons for the change, which are to emphasize our cultural heritage, and to provide a unique branding that will be retained more easily by all. As we move forward we seek talented individuals to join our team, particularly individuals who can work in sales and marketing, as we focus on gaining revenue for the company.

If we are successful in getting additional capital from our shareholder, we will focus on locating a top-notch company for purchase. The goal in all of our future endeavors will be to affiliate with successful people and companies, for the purpose of making Tallgrass a strong and profitable company.

James E Holder
CEO

COMPANY INFORMATION

Company Information

One of the main assets is the 8(a) status of our two subsidiaries – Osage Pinnacle Design Group (dba Tallgrass Construction Services (TCS) and Osage Innovative Solutions (dba Tallgrass Technology Services (TTS). These two companies provide us with the capability of marketing our competencies to the federal government for the purpose of providing construction and technology services.

Native American businesses, tribal member owned enterprises and minority companies are in demand. All government contracts and most private corporations require a percentage (anywhere from 20% to 40%) of their expenditures to go to minority enterprises. In 2014, \$96.0 billion in federal contracts were awarded to small business enterprises in achieving their goal to spend 23% of all federal government dollars with “small businesses”. A subset of the small business goals are for 21.8% of those small business dollars (\$20.9 billion) to be directed to “small disadvantaged businesses” (SDBs). Organizations owned by tribes, Native-Americans, women, and other ethnic minorities, all fall under the heading of an SDB.

Tallgrass Construction Service Offering

TCS serves as a general contractor for small to mid-sized remodels, new construction and maintenance. The company has experience in working with sub-contractors in the following areas:

- Architecture and design
- Electrical and plumbing,
- Heating, ventilation, and air conditioning (“HVAC”)
- Specialty concrete

We are committed to building our internal competency in construction and construction management (project managers, superintendents, cost estimation, accounting, customer service, etc.), but can do so only when there is revenue in place to support those employees.

TCS has been active in the 8(a) program and construction industry for 3 years, primarily serving as a general contractor through contracts awarded through the Corp of Engineers Tulsa District. From 2013 to 2015, TCS completed 6 projects at Tinker Air Force Base, Camp Bowie and for commercial customers, with revenues totaling approximately \$1.1M. In 2016, TCS has a backlog of approximately \$6.5M of construction projects at Tinker, most which are expected to be completed during 2016/2017. These Tinker projects were sourced through the Army Corp of Engineers - Tulsa District office. Management personnel at Tinker and the Tulsa Corp have been very helpful as advocates as we have been awarded these additional projects, we count on those positive referrals, and will continue cultivating those relationships. Conversations with the Tulsa District US Army Corp of Engineers have us excited about the growth possibilities through this relationship and this is only the beginning of what is possible as we move to build relationships with other Corp offices, and other agencies, throughout the region.

COMPANY INFORMATION

Due to a more recent contribution of restricted cash of \$1.5M by the Osage Nation, we have been able to secure bonding capacity of between \$15.0 - \$20.0M. This much needed capital serves as a spring-board as we move to compete for larger contracts and provides much needed creditability in the market place.

Finally, a word about the strategy and focus on construction with the federal government as a primary customer. Our focus on construction as one of the pillars of our business, is one that has been successfully employed by many tribally-owned companies. The disadvantaged status that we enjoy provides for the development of very long-term relationships with key personnel in the government. The federal government spends an enormous amount of money each year, building, remodeling and maintaining the infrastructure that it owns and operates. This commitment is on-going and ensures a robust supply of opportunities for as long as we operate in this program.

Tallgrass Technology Services Service Offerings

During 2015, we began the process of evaluating future opportunities with our technology 8(a) firm – TTS. During this evaluation period, we looked at activities of other tribally-owned firms, trends in the market place, and our own constraints due to a lack of capital. As we began the process of exploring that industry segment, it came to our attention the Osage Nation was using a Tulsa based firm (Data3 Corporation) for these services, in support of the government's I.T. efforts. The more we evaluated the opportunity and the prospective partner, the clearer it became this was an area in which we could form a partnership, gain access to millions of dollars of equipment and experience, and market the partnership to the federal government.

In partnership with Data3 Corporation (a 20 year old Tulsa based technology firm), TTS is planning to submit a SBA's mentor protégé ("MP") agreement in 2016 and will seek to form joint venture relationships on future projects once the agreement is approved. Data3, a vendor to the Osage Nation, was selected because of their experience, quality of their management team and their long history of delivering first class services to customers both domestically and internationally.

As we begin to develop TTS, we are also evaluating how we can partner with other groups in the region who have experience in providing I.T. services to various government agencies and exploring potential acquisition targets with government experience and contractual relationships.

TTS is launching its efforts around two primary services:

- Software application development
- Data storage
- Custom Application Development
- Managed Hosting Services / Cloud Computing
- Custom ERP Application Services & Conversion
- Custom SAP Development & Administration
- Disaster Recovery & Business Continuity

COMPANY INFORMATION

- Active Directory, Security & Identity Management
- Inventory Management & Component Tracking
- Custom Mobile & Web Application Development
- Technical Project Management
- Management Consulting Services
- Customer/Supplier Portal Development
- Oracle Database Development
- Oracle Database Administration
- Custom MS SQL Server Development
- MS SQL Database Administration
- Legacy to Web Application Conversion
- Cloud Computing / Platform, Infrastructure & Application as a Service (PaaS/IaaS/AaaS)

CONTACT INFORMATION AND TRANSITION

Contact Information

The above represents the audit opinion and financial statements as of December 31, 2015. Additional information is provided in the management discussion and analysis and footnotes to the financials. A complete audited financial report may be requested from the Osage LLC/Tallgrass offices at 4500 South 129th East Ave., Suite 105, Tulsa, OK 74134 during business hours.

Transition

Osage LLC (the LLC) is a tribal limited liability company organized on April 8, 2008, under resolution number ONCR 08-09 of the Osage Nation Limited Liability Companies Act, for the purpose of managing the business activities of the Osage Nation (the Nation) separate from the affairs of tribal government. In an effort to enhance and grow the economic development of the Nation, this resolution provided the ability for the LLC to enter into legally binding contracts and commercial relationships without the need for formal tribal government action. Following the establishment of the LLC, a Board of Directors was formed to oversee management of the LLC.

In 2015, the LLC had four operating blended component units – three are 100% owned: Osage Pinnacle Design Group, LLC (OPDG), Echota Technologies Corporation (Echota) and Osage Innovative Solutions, LLC (OIS); and one is majority owned, American Video & Security (AVS) (70% ownership). Effective January 1, 2015, we are no longer pursuing business opportunities for Echota and AVS; however the 2015 financials represent wind down cost associated with closure of operations.

On April 27, 2015, Osage Nation organized Tallgrass Economic Development, LLC (ONCR 15-08 and 15-09) to establish a new entity to manage the business activities of the Osage Nation. During 2015, Osage LLC focused on rebranding the two remaining subsidiaries and building relationships to build these operations for future success. Asset movement from Osage LLC to Tallgrass was delayed due to regulatory hurdles, but should be completed in early 2017.

EXHIBIT A

Osage, LLC

Independent Auditor's Reports and Financial Statements

December 31, 2015 and 2014



Osage, LLC
December 31, 2015 and 2014

Contents

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 on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of the Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29

Independent Auditor's Report

Board of Directors
Osage, LLC
Tulsa, Oklahoma

Report on the Financial Statements

We have audited the accompanying financial statements of Osage, LLC, a wholly owned investment of the Osage Nation, which is comprised of the statements of net position as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements.

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 financial position of Osage, LLC as of December 31, 2015 and 2014, 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements and other knowledge we obtained during our audit of the 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 _____, 2016, on our consideration of Osage, LLC's internal control over financial reporting and 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 the 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 Osage, LLC's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
April 21, 2016

Osage, LLC

Management's Discussion and Analysis

Years Ended December 31, 2015 and 2014

Introduction

This management's discussion and analysis (MD&A) of Osage LLC's (the LLC) financial performance provides an overview of the LLC's financial activities for the years ended December 31, 2015 and 2014, and should be read in conjunction with the LLC's financial statements which begin on page 8.

The LLC is a tribal limited liability company organized on April 8, 2008, under resolution number ONCR 08-09 of the *Osage Nation Limited Liability Companies Act*, for the purpose of managing the business activities of the Osage Nation (the Nation) separate from the affairs of tribal government. In an effort to enhance and grow the economic development of the Nation, this resolution provided the ability for the LLC to enter into legally binding contracts and commercial relationships without the need for formal tribal government action. Following the establishment of the LLC, a Board of Directors was formed to oversee management of the LLC.

The LLC has four operating blended component units – three are 100% owned: Osage Pinnacle Design Group, LLC (OPDG), Echota Technologies Corporation (Echota) and Osage Innovative Solutions, LLC (OIS); and one is majority owned, American Video & Security (AVS) (70% ownership). In addition, the LLC has a 55% ownership in a joint venture investment, Osage Manhattan Builders, LLC (OMB), which is presented as an equity investment in the accompanying financial statements. Operating results from these blended component units and joint venture investment are presented in the accompanying financial statements.

Financial Highlights

The LLC implemented Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment to GASB Statements No. 14 and No. 34*, in 2013. This statement changed the presentation of the LLC's equity position in its joint venture from a blended component unit to an equity investment in the accompanying financial statements. The LLC's assets exceeded its liabilities by \$2,823,634 and \$3,630,466 (net position) for 2015 and 2014, respectively. Of these total amounts, \$1,291,852 and \$2,080,295 for 2015 and 2014, respectively, are considered to be unrestricted net position that may be used to meet the LLC's ongoing obligations.

Liabilities increased by \$162,404 to a balance of \$382,339 at the end of 2015 and decreased by \$2,542,301 to a balance of \$219,935 at the end of 2014. The increase in 2015 was due to accrued expenses and the decrease in 2014 was mainly due to a decrease in AVS' operational accounts payable.

Net position decreased by \$806,832 during 2015 and decreased by \$1,584,521 during 2014 due to the use of funds for ongoing operations.

In 2015 and 2014, the LLC did not make any additional passive investments due to a change in overall company strategy. In October 2014, the LLC received \$300,000 from Bluestone Strategy Group as partial payment on an outstanding note receivable (see *Note 5* to the financial statements). Also, during 2015 and 2014, the LLC received dividend, interest and equity distribution payments from their investments in Haley Associates and Specialty Surgery of Secaucus, LLC and received distribution of assets from their investment in OMB.

Overview of the Financial Statements

The LLC's financial statements consist of three statements: a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the LLC, including resources held by the LLC but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The LLC is accounted for as a business-type entity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

These two statements report the LLC's net position and changes in it during the period. The LLC's total net position—the difference between assets and liabilities—is one measure of the LLC's financial health. Over time, increases or decreases in the LLC's net position are an indicator of whether its financial position is improving or deteriorating. Other nonfinancial factors, such as changes in the LLC's customer base, changes in legislation and regulations, measures of the quality of services provided to its customers and local economic factors, should also be considered to assess the overall financial health of the LLC.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from operating activities, contributions from the Nation and purchases/sales of assets. It provides answers to such questions as where did cash come from, what was cash and cash equivalents used for and what was the change in cash during the reporting period.

The LLC's Net Position

The following presents condensed statements of net position as of December 31:

	2015	2014	2013
Assets			
Current assets	\$ 1,656,399	\$ 1,945,914	\$ 5,640,076
Capital assets, net	31,782	50,171	80,658
Intangible assets, net	17,792	21,000	34,997
Investments	-	333,316	719,833
Restricted cash and cash equivalents	1,500,000	1,500,000	1,500,000
Other assets	-	-	1,659
Total assets	<u>3,205,973</u>	<u>3,850,401</u>	<u>7,977,223</u>
Liabilities			
Current liabilities	<u>382,339</u>	<u>219,935</u>	<u>2,762,236</u>
Net Position			
Net investment in capital assets	31,782	50,171	80,658
Restricted	1,500,000	1,500,000	1,500,000
Unrestricted	<u>1,291,852</u>	<u>2,080,295</u>	<u>3,634,329</u>
Total net position	<u>\$ 2,823,634</u>	<u>\$ 3,630,466</u>	<u>\$ 5,214,987</u>

2015 Versus 2014 Financial Highlights – Statements of Net Position

The LLC's total assets decreased \$644,428 from \$3,850,401 at December 31, 2014, to \$3,205,973 at December 31, 2015. Total liabilities increased \$162,404 from \$219,935 at December 31, 2014, to \$382,339 at December 31, 2015. These changes resulted in the LLC's net position decreasing by \$806,832 from \$3,630,466 at December 31, 2014, to \$2,823,634 at December 31, 2015. The primary reason for the decrease in total assets and net position was a decrease in note receivable due to an increase in the provisions for uncollectible receivables of \$170,000 and decreases in investments of \$630,099 due to the sale of mutual fund investments and receipt of equity distributions from the investment in joint venture and Haley & Associates, LP, while the increase in liabilities is due mainly to the increase in accounts payable due to completion of certain contracts.

2014 Versus 2013 Financial Highlights – Statements of Net Position

The LLC's total assets decreased \$4,126,822 from \$7,977,223 at December 31, 2013, to \$3,850,401 at December 31, 2014. Total liabilities decreased \$2,542,301 from \$2,762,236 at December 31, 2013, to \$219,935 at December 31, 2014. These changes resulted in the LLC's net position decreasing by \$1,584,521 from \$5,214,987 at December 31, 2013, to \$3,630,466 at December 31, 2014. The primary reason for the decrease in total assets, liabilities and net position was a decrease in accounts receivable and accounts payable due to completion of certain contracts and continued operating losses by the LLC and its blended component units.

2015 Versus 2014 Operating Results and Changes in Net Position

Total operating revenues decreased by \$510,695 from \$1,492,358 in 2014 to \$981,663 in 2015. The decrease is due to a decrease in contract income from AVS of \$576,781 and Echota of \$667,259, offset by an increase in income for OPDG of \$401,432 and OIS of \$70,785 and income from OMB's equity investment of approximately \$111,000. The increase in OPDG and OIS is the result of new contracts being awarded and completed in 2015. The decrease in AVS and Echota was due to contracts being completed or expiring during 2014 and ceasing further operations of these component units at the end of 2014.

Total operating expenses decreased by \$1,273,451 from \$3,055,033 in 2014 to \$1,781,582 in 2015. The decrease was due primarily to a decrease in cost of goods sold directly associated with the decreased contract activities of AVS and Echota and restructuring efforts to reduce overhead costs.

In 2015 and 2014, the LLC incurred a loss from operations, before contributions and distributions, of \$806,832 and \$1,584,521, respectively. The losses were due to a combination of operating expenses for the LLC and its component units.

The LLC received no contributions from the Nation during 2015 or 2014 as compared to \$1,500,000 in restricted contributions in 2013.

2014 Versus 2013 Operating Results and Changes in Net Position

Total operating revenues decreased by \$8,035,484 from \$9,527,842 in 2013 to \$1,492,358 in 2014. The decrease is due to a decrease in contract income from AVS of \$6,315,309 and Echota of \$493,503 and income from OMB's equity investment of \$1,082,166. The decrease in AVS and Echota was due to several contracts being completed during 2014 and government contract expirations. OMB's equity investment decreased due to completion of the Nation's casino projects and due to the timing and recognition of actual project costs that are estimated until the projects are completed.

Total operating expenses decreased by \$6,349,142 from \$9,404,175 in 2013 to \$3,055,033 in 2014. The decrease was due primarily to a decrease in cost of goods sold directly associated with the decreased contract activities of AVS and Echota and restructuring efforts to reduce overhead costs.

In 2014, the LLC incurred a loss from operations, before contributions and distributions, of \$1,584,521. The loss was due to a combination of operating expenses for the LLC and its component units.

The following presents condensed statements of revenues, expenses and changes in net position for the years ended December 31:

	2015	2014	2013
Operating revenues	\$ 981,663	\$ 1,492,358	\$ 9,527,842
Operating expenses	<u>1,781,582</u>	<u>3,055,033</u>	<u>9,404,175</u>
Operating income (loss)	(799,919)	(1,562,675)	123,667
Nonoperating expenses	<u>(6,913)</u>	<u>(21,846)</u>	<u>(1,134,399)</u>
Loss before contributions	<u>(806,832)</u>	<u>(1,584,521)</u>	<u>(1,010,732)</u>
Contributions from the Nation	<u>-</u>	<u>-</u>	<u>1,500,000</u>
Change in net position	(806,832)	(1,584,521)	489,268
Net position, beginning of year	<u>3,630,466</u>	<u>5,214,987</u>	<u>4,725,719</u>
Net position, end of year	<u><u>\$ 2,823,634</u></u>	<u><u>\$ 3,630,466</u></u>	<u><u>\$ 5,214,987</u></u>

Following is a summary of operating revenues (losses) by company or category for the years ended December 31:

	2015	2014	2013
American Video & Security	\$ 277	\$ 577,058	\$ 6,892,367
Echota Technologies Corporation	19,487	686,746	1,180,014
Osage Innovative Solutions, LLC	70,785	-	-
Osage Pinnacle Design Group, LLC	754,259	352,827	-
Investments	<u>136,855</u>	<u>(124,273)</u>	<u>1,455,461</u>
	<u><u>\$ 981,663</u></u>	<u><u>\$ 1,492,358</u></u>	<u><u>\$ 9,527,842</u></u>

Economic Factors and Next Year's Outlook

The LLC's portfolio consists of both blended component units and passive investments that leverage minority ownership designations or status. The LLC has two blended component units that are SBA 8(a) certified entities (OPDG and OIS) whose goal is to provide contractual and business development opportunities that are supportive of the LLC's companies. These 8(a) certifications enable OPDG and OIS to focus on SBA 8(a) government contracting opportunities. Revenues generated by OMB, an equity joint venture investment, during 2013 and 2014 allowed the LLC's 8(a) subsidiaries to develop relationships required for capturing possible government contract opportunities.

OPDG provides a disciplined management system that promotes the successful execution of projects for its clients by assisting with pre-planning, architectural design, construction, engineering and project management expertise. OPDG is committed to providing its valued clients an integrated approach to project management and full-service architectural, engineering and construction services through teaming partnerships. OPDG received SBA 8(a) certification in January 2013. During 2015 and 2014, OPDG performed on task orders awarded under a Performance Oriented Construction Activities (POCA) contract and one commercial contract. Future plans are focused on continuing to utilize the SBA 8(a) certification for contracts and building strong working relationships in the region with the Army Corps of Engineers and other government agencies, developing teaming relationships with strong partners and identifying potential acquisition targets graduating from the SBA 8(a) program with construction expertise.

OIS received SBA 8(a) certification in April 2012 and was created to pursue contracts related to computer-related services and to utilize management and vendor teams with experience in smart building design, construction, operation, technology, logistics and project management services. OIS completed one small contract with the Army Corps of Engineers –Tulsa District in early 2015 resulting in \$70,785 of revenue and had no revenue during 2014. Management has refocused efforts in developing relationships with strong teaming partners and identifying contract opportunities in the technology services area with federal and state governments and commercial clients in 2016.

AVS was acquired in 2011 and provided video security systems to the commercial market. In 2014, the LLC's Board and management evaluated restructuring alternatives related to AVS. AVS sales slowed and revenues were not sufficient to offset operating expenses. As a result, the AVS office in Wisconsin was closed in December 2014, and AVS is currently being managed from Oklahoma.

Echota was primarily engaged in providing services to the U.S. Department of Energy, U.S. Department of Defense, U.S. Department of Agriculture and commercial industries serving the national defense, nuclear energy and private sector markets. Echota began experiencing reduction in scope and expiration of government contracts in 2012 and this continued in 2013 and 2014. Echota management's efforts to capture additional government contracts were unsuccessful. As a result, the LLC and Echota Board of Directors closely managed the bottom line during 2014 to complete existing contractual obligations and, in December 2014, the Tennessee office was closed. Echota is currently being managed from Oklahoma.

OMB is 55% owned by the LLC and is presented as an equity investment in the accompanying financial statements. OMB provides construction management, general contracting, owner representative and design-build services for tribal, public, government and privately funded new construction, renovations and remodels. OMB builds on 116 years of management construction expertise through its joint venture with Manhattan Construction Company (Manhattan). During 2013, OMB generated revenues in excess of \$62,000,000; however, 2014 revenues decreased to approximately \$7,000,000. The decrease was mainly associated with a decrease in projects performed for the Nation. In December 2015, the Board decided to eliminate any further operating expenses in OMB and distributed cash to the owners.

Overall, the LLC's Board and management believe the Company is positioned to be more efficient and more focused on expanding operations in 2016. The Board and management have developed a short- and long-term strategy to take advantage of SBA 8(a) certification and bid on government contracts. Additional business development and project management positions have been budgeted and will be added as warranted. In April 2015, the Nation authorized the formation of Tallgrass Economic Development LLC, a holding company for managing the Nation's business activities. In January 2016, the Nation passed legislation to transfer certain assets from the LLC to Tallgrass Economic Development LLC. The asset transfers will occur as all legal and regulatory approvals have been completed.

Contacting the LLC's Financial Management

If you have any questions about this report or need additional information, contact Raymond Hankins, Audit Committee Chairman at 4500 South 129th East Avenue, Suite 105, Tulsa, Oklahoma 74134.

Osage, LLC
Statements of Net Position
December 31, 2015 and 2014

Assets

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents (see <i>Note 1</i>)	\$ 551,075	\$ 419,418
Investments (see <i>Note 3</i>)	881,168	1,125,547
Accounts receivable, net of allowance; 2015 – \$0, 2014 – \$4,988	173,521	111,728
Note receivable, net of allowance; 2015 – \$200,000, 2014 – \$30,000 (see <i>Note 5</i>)	30,782	254,930
Prepaid expenses and other	<u>19,853</u>	<u>34,291</u>
Total current assets	<u>1,656,399</u>	<u>1,945,914</u>
Capital Assets, Net (see <i>Note 4</i>)	<u>31,782</u>	<u>50,171</u>
Other Assets		
Restricted cash and cash equivalents (see <i>Note 1</i>)	1,500,000	1,500,000
Investments (see <i>Note 3</i>)	-	189,598
Investment in joint venture (see <i>Note 9</i>)	-	143,718
Intangible assets, net	<u>17,792</u>	<u>21,000</u>
Total other assets	<u>1,517,792</u>	<u>1,854,316</u>
Total assets	<u><u>\$ 3,205,973</u></u>	<u><u>\$ 3,850,401</u></u>

Liabilities and Net Position

Current Liabilities		
Accounts payable	\$ 318,258	\$ 167,334
Payroll liabilities	6,716	-
Other liabilities	<u>57,365</u>	<u>52,601</u>
Total current liabilities	<u>382,339</u>	<u>219,935</u>
Net Position (see <i>Note 1</i>)		
Net investment in capital assets	31,782	50,171
Restricted	1,500,000	1,500,000
Unrestricted	<u>1,291,852</u>	<u>2,080,295</u>
Total net position	<u>2,823,634</u>	<u>3,630,466</u>
Total liabilities and net position	<u><u>\$ 3,205,973</u></u>	<u><u>\$ 3,850,401</u></u>

Osage, LLC
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenues		
Contract income	\$ 277	\$ 927,367
Consulting income	830,773	686,746
Interest and dividends	65,935	113,926
Income (loss) from investment in joint venture	111,204	(278,580)
Loss on investment	(38,336)	-
Other income	11,810	42,899
Total operating revenues	981,663	1,492,358
Operating Expenses		
Cost of goods sold	703,316	1,130,926
Salaries and benefits	247,015	995,246
Office services and supplies	76,567	155,046
Professional fees	329,453	342,720
Travel expense	19,220	93,779
Occupancy and rental	56,352	86,645
Provisions for uncollectible note receivable	170,000	-
Insurance	64,342	122,792
Depreciation and amortization	16,745	33,268
Director's fees	80,600	82,075
Fees, taxes and service charges	17,632	12,316
Advertising and promotion	340	220
Total operating expenses	1,781,582	3,055,033
Operating Loss	(799,919)	(1,562,675)
Nonoperating Revenues (Expenses)		
Loss on disposal of assets	(6,913)	(21,846)
Change in Net Position	(806,832)	(1,584,521)
Net Position, Beginning of Year	3,630,466	5,214,987
Net Position, End of Year	<u>\$ 2,823,634</u>	<u>\$ 3,630,466</u>

Osage, LLC
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Cash receipts for goods and services	\$ 791,753	\$ 3,945,646
Investment income and return of capital received	192,775	220,328
Cash payments to employees and contract labor	(253,840)	(1,524,711)
Cash payments for goods and services	(1,174,934)	(4,002,313)
Other operating receipts	24,515	18,974
Proceeds from sales and maturities of investments	244,379	175,812
Distributions received from joint venture investment	254,922	-
Principal payments from note receivable	54,148	315,070
Net cash provided by (used in) operating activities	<u>133,718</u>	<u>(851,194)</u>
Capital and Related Financing Activities		
Purchases of property and equipment	<u>(2,061)</u>	<u>(10,627)</u>
Net cash used in capital and related financing activities	<u>(2,061)</u>	<u>(10,627)</u>
Increase (Decrease) in Cash and Cash Equivalents	131,657	(861,821)
Cash and Cash Equivalents, Beginning of Year	<u>1,919,418</u>	<u>2,781,239</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 2,051,075</u></u>	<u><u>\$ 1,919,418</u></u>
Cash and Cash Equivalents Consist of		
Unrestricted cash and cash equivalents	\$ 551,075	\$ 419,418
Restricted cash and cash equivalents	<u>1,500,000</u>	<u>1,500,000</u>
	<u><u>\$ 2,051,075</u></u>	<u><u>\$ 1,919,418</u></u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (799,919)	\$ (1,562,675)
Noncash adjustments to reconcile operating loss to net cash used in operating activities		
Depreciation and amortization	16,745	33,268
Provision for uncollectible note receivable	170,000	-
Impairment of cost method investment	58,800	-
(Income) loss from investment in joint venture	(111,204)	278,580
Net changes in		
Accounts receivable	(61,793)	2,297,569
Prepaid expenses and other current assets	14,760	45,546
Accounts payable	162,082	(2,542,301)
Investments	630,099	283,749
Note receivable	54,148	315,070
Net cash used in operating activities	<u><u>\$ 133,718</u></u>	<u><u>\$ (851,194)</u></u>

Osage, LLC

Notes to Financial Statements

December 31, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

Osage, LLC (the LLC) was formed on April 8, 2008, as a single-member LLC with the Osage Nation (the Nation) as its sole member to manage specific business activities and investments described below, separate from the affairs of the Tribal Government. The LLC is accounted for as an investment of the Nation. The LLC has four blended component units – three are 100% owned: Osage Pinnacle Design Group, LLC (OPDG), Echota Technologies Corporation (Echota) and Osage Innovative Solutions, LLC (OIS); one is majority owned, American Video & Security (AVS) (70% ownership). The LLC's Board of Directors oversees the LLC and its blended component units' operations. The Nation is able to exert significant influence over the LLC's activities as a result of its appointment of the Board of Directors by the Principal Chief of the Nation and confirmation by the Nation's Congress.

The LLC, through its wholly owned subsidiary, OPDG, provides architectural, interior design and small construction project services. OIS seeks to provide services in information technology, data center/hosting and project management services. In 2014, Echota provided training, information technology, engineering and site staffing support. The LLC's 70% owned component unit, AVS, provided system design; installation, sales and service of video surveillance; digital video recording; and access control systems.

The LLC also owns a 55% interest in a joint venture, Osage Manhattan Builders, LLC (OMB), which provides construction management, general contracting, owner representative and design-build services for public, government and privately funded new construction, renovations and remodels. Condensed financial statements for OMB are presented in *Note 9*. OMB's remaining assets were distributed to the respective owners at December 31, 2015; however, the entity has not been dissolved.

Basis of Accounting and Presentation

The accounting and reporting policies of the LLC conform to generally accepted accounting principles for units of local government as promulgated by the Governmental Accounting Standards Board (GASB). The LLC determines its financial reporting entity in accordance with GASB Statement No. 14, *The Financial Reporting Entity*, as amended by GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*, and utilizes the accrual basis of accounting under which revenues are accrued as earned and expenses are recorded as they are incurred regardless of the timing of the related cash flows.

AVS, Echota, OIS and OPDG represent component units which are financially accountable to the LLC's Board; management of each entity is responsible for maintaining the accounting records that are, in substance, a part of the LLC's general operations. Therefore, these component units are blended in the LLC's financial statements. The accounts and operations of the blended component units of the LLC are included in the accompanying financial statements as a single business-type activity. Condensed combining information of each separate entity can be found in *Note 10*.

Osage, LLC

Notes to Financial Statements

December 31, 2015 and 2014

AVS has a 30% minority interest owner as of December 31, 2015. GASB Statement No. 61 requires that a minority interest's equity portion be shown as restricted net position, nonexpendable. However, as of December 31, 2015, AVS had a total deficit net position of \$1,284,233, of which approximately \$600,000 of the deficit is attributable to the minority interest. The operating agreement of AVS does not address the requirements of each owner to contribute assets in excess of liabilities upon dissolution. Therefore, the minority interest's portion of the overall deficit is included in unrestricted net position of the LLC since there is potential that the LLC may be obligated to provide further financial support to AVS in future periods. However, as of December 31, 2015, the LLC's position is that the minority owner owes AVS for the minority owner's net deficit potentially offset by accounts payable due to the minority owner and a related party of the minority owner.

Cash and Cash Equivalents

The LLC considers cash in banks, money market accounts and all highly liquid debt investments with an original maturity, when purchased, of three months or less to be cash equivalents. The LLC accounts for money market mutual funds as cash and cash equivalents.

Cash accounts in the name of AVS are limited for the general use of the component unit's operations and not available for general use by the LLC or other LLC subsidiaries. However, as there are no other restrictions for use, they are not presented as restricted cash in the accompanying financial statements.

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represent cash contributed by the Nation that is restricted to use as collateral to secure bonding as needed for construction projects.

Accounts and Notes Receivable

Accounts receivable consist primarily of amounts due from services provided by OPDG at December 31, 2015, and by OPDG, AVS and Echota at December 31, 2014, and stated at the amount billed. The carrying amount of accounts and notes receivable is reduced by a valuation allowance which reflects management's best estimate of the amounts that may eventually prove to be uncollectible. Delinquent receivables are written off based on individual credit evaluation and specific circumstances of the customer.

The rights to accounts receivable balances in AVS are limited for the use of the component unit's operations and are not available for use by the LLC or other LLC subsidiaries.

Notes receivable are stated at their outstanding principal balance, net of allowance for uncollectible amounts. The LLC provides an allowance for uncollectible notes, which is based upon a review of outstanding receivables, historical collection information and existing economic conditions. Outstanding notes accrue interest based on the terms of the respective note agreements. A note receivable is considered delinquent when the debtor has missed three or more payments. At that time, the note is placed on nonaccrual status and interest accrual ceases and does not resume until the note is no longer classified as delinquent. Delinquent notes are written off based on individual credit evaluation and specific circumstances of the borrower.

Osage, LLC

Notes to Financial Statements

December 31, 2015 and 2014

Investments

Marketable securities, such as mutual funds investing in equity securities, are reported at fair value. Fair value is determined using quoted market prices. Nonmarketable equity investments represent equity interests in privately held companies and private equity funds, stated at cost, subject to any impairment required. Investments in debt securities are carried at fair value based on the present value of expected future cash flows. Equity investments in which the LLC can exercise significant influence over the investee are accounted for using the equity method.

Investment in Joint Venture

The LLC records its equity in its joint venture investments using the equity method. The initial investment is recorded at cost and subsequently adjusted for the LLC's share of the income or loss of the joint venture and cash distributions, if any, received from the joint venture. Investments are evaluated periodically to determine if the carrying value of the investment exceeds its fair value. When management believes impairment has occurred, the investment is adjusted to fair value. Management did not record any impairment in 2015 or 2014.

The investment in joint venture was liquidated during 2015 (see *Note 9*).

Capital Assets

The LLC's accounting policies regarding capital assets are that these assets, with an initial cost of \$1,000 or more, are to be capitalized and depreciated over their estimated useful lives. Capital assets are stated at historical cost (see *Note 4*). Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

Leasehold improvements	7–15 years
Furniture, fixtures, computers and equipment	3–5 years

Repairs and maintenance are expensed as incurred, whereas major improvements are capitalized.

Intangible Assets

The fair value of the intangible assets is measured by the present value of estimated expected future cash flows using a discount rate commensurate with the risks involved. Intangible assets include backlog, customer relationships and other identified intangibles acquired in these business acquisitions. Intangible assets are amortized over their estimated useful lives ranging from 10 to 15 years and computed using the straight-line method.

Osage, LLC

Notes to Financial Statements

December 31, 2015 and 2014

Net Position

Net position of the LLC is classified in three components. Net investment in capital assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted net position consists of noncapital assets that must be used for a particular purpose as specified by external sources (such as through debt covenants), contributors or laws or regulations of other governments or constraints imposed by the law through constitutional provisions or enabling legislation. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

Risk Management

The LLC and its component units are exposed to various risks of loss, including but not limited to losses from torts; theft of, damage to and destruction of assets; business interruptions; error and omissions; workers' compensation; natural disasters; and employee health and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Revenue and Cost Recognition

The LLC recognizes revenue on service contracts as services are performed. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Cost of goods sold includes all direct material and labor costs and those indirect costs related to contract performance. General and administrative costs are charged to expense as incurred.

Operating and Nonoperating Revenues and Expenses

Operating revenues are those revenues that are produced as a result of providing goods or services and provided by certain investing activities of the LLC, such as interest and dividend income earned on investments, gains/losses on the sale of investments and income or loss generated from the operations of the joint venture. Nonoperating revenues are funds primarily provided by certain investing activities of the LLC's blended component units, such as interest and dividend income on cash accounts or gains on the disposal of assets. Operating expenses are those expenses relating to the production of operating revenue, including cost of goods sold, salaries and benefits and depreciation and amortization. Nonoperating expenses are those expenses not connected directly with the production of operating revenue and include such items as interest expense and losses on the disposal of assets that are unrelated to the production of operating revenue.

Osage, LLC

Notes to Financial Statements

December 31, 2015 and 2014

Income Taxes

As single-member limited liability companies, the LLC and its component units, OPDG and OIS, are exempt from federal and state income taxation. OMB is jointly owned and files a tax return, but the LLC's share of OMB's income or loss is not taxable to the LLC.

AVS is a limited liability company established under the laws of the state of Wisconsin and is taxed as a partnership under provisions of the Internal Revenue Code and a similar section of the state income tax law. Therefore, taxable income or loss is reported to the individual members for inclusion in their respective tax returns, if applicable, and no provision for federal and state income taxes is included in these statements. With a few exceptions, AVS is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2012.

Echota accounts for income taxes in accordance with income tax accounting guidance (Accounting Standards Codification (ASC) 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. Echota determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. With a few exceptions, Echota is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2012.

For the years ended December 31, 2015 and 2014, Echota does not have a provision for income tax recorded. In 2015, a net operating loss carryforward asset of \$574,185 resulted in a net deferred tax asset. Because Echota does not believe it is more likely than not that it will realize the benefit of the operating loss carryforward, it has recorded a valuation allowance against the deferred tax asset of \$574,185, resulting in no effect on its statement of net position.

Echota recognizes interest and penalties on income taxes as a component of income tax expense as they are incurred. None were incurred in 2015 or 2014.

Osage, LLC

Notes to Financial Statements

December 31, 2015 and 2014

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 financial statement presentation. These reclassifications had no effect on the changes in financial position.

Contributions

Contributions received from the Nation are recorded at fair value on the date of contribution.

Note 2: Related-Party Transactions

At December 31, 2015 and 2014, there was \$44,553 in related-party payables due to the AVS general manager related to reported out-of-pocket expenditures. As discussed in *Note 1*, payment of these liabilities may be withheld as an offset to AVS' deficit net position.

In March 2013, the noncontrolling interest holder of AVS organized Video Security Specialist (VSS). VSS is an equipment reseller. VSS purchased equipment from an outside vendor for equipment needed to complete AVS customer contracts. VSS invoiced AVS for the equipment purchases at cost, which totaled \$0 and \$439,601 during the years ended December 31, 2015 and 2014, respectively. In addition, there were accounts payable balances outstanding of \$114,065 at December 31, 2015 and 2014.

For the years ended December 31, 2015 and 2014, certain intercompany receivables and payables totaling \$2,061,695 and \$1,972,975, respectively, were eliminated in consolidation.

The LLC has a note receivable due from Blue Stone Strategy Group, LLC (Blue Stone) of \$30,782 and 284,930, net of allowances as of December 31, 2015 and 2014, respectively (see *Note 5*). The former chief executive officer (CEO) of the LLC served as an advisory board member for Blue Stone. Blue Stone provided compensation of \$1,000 for meeting attendance and an hourly fee for work performed under other Blue Stone contracts directly to the former CEO of the LLC.

At December 31, 2015 and 2014, there was \$0 and \$254,421, respectively, in related-party receivables recorded by OMB, the LLC's joint venture operation, from affiliates of the Nation related to construction services provided. Included in OMB's contract income are amounts earned from affiliates of the Nation totaling \$86,375 and \$6,560,268 for the years ended December 31, 2015 and 2014, respectively.

Osage, LLC
Notes to Financial Statements
December 31, 2015 and 2014

Note 3: Deposit and Investment Disclosures

Deposits

Custodial credit risk for deposits is the risk that in the event of a bank failure the LLC's deposits may not be returned. The LLC considers all liquid fixed income-based investments with original maturities of three months or less to be cash equivalents but does not have a deposit policy for custodial credit risk. At December 31, 2015 and 2014, cash equivalents consisted primarily of money market deposit accounts with financial institutions and a certificate of deposit. At December 31, 2015, the LLC had deposits totaling \$2,063,542 at various financial institutions, and none of the deposits were exposed to custodial credit risk since all the deposits were either insured by the FDIC or had collateral pledged by financial institutions and held in the name of the LLC.

Investments

Investments at December 31 consisted of the following:

	<u>2015</u>	<u>2014</u>
Cost method investments (A)		
New Market Technology Fund, LLC	\$ -	\$ 58,800
Haley and Associates, LP	-	130,798
	<u>-</u>	<u>189,598</u>
Equity method investments		
Osage Manhattan Builders, LLC – joint venture (<i>Note 9</i>)	<u>-</u>	<u>143,718</u>
Investment carried at fair market value		
Fixed income mutual fund	<u>881,168</u>	<u>1,125,547</u>
	<u>\$ 881,168</u>	<u>\$ 1,458,863</u>

- (A) Consistent with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, these investments do not have readily determinable fair values, and the LLC owns less than a 20% interest in these entities and cannot exercise significant influence. Therefore, these investments are held at cost and reviewed periodically for indications of other-than-temporary impairment that may decrease the carrying value. At December 31, 2015, the accumulated carrying value of these investments had decreased from their original cost by approximately \$1,850,000 due to impairment recorded in previous years and equity distributions received. An impairment was recognized for the year ended December 31, 2015, in the amount of \$58,800, related to the investment of New Market Technology Fund, LLC. No impairment was recognized for the year ended December 31, 2014.

Osage, LLC

Notes to Financial Statements

December 31, 2015 and 2014

At December 31, 2015, the LLC owned 5.1% of New Market Technology Fund, LLC, a holding company that owns 60% in Celcorp/Teradaq (CT), a business advisory consulting practice that contracts with companies to help improve its clients' productivity and human capital. CT also owns a 9.1% interest in Secure Mountain, a computer data center.

At December 31, 2015, the LLC owned 33,624 noncontrolling, nonmarketable shares in Haley and Associates, LP. The purpose of the partnership is to acquire and manage a portfolio of apartment communities, hold them for a period of time and then liquidate the assets. Haley owns real estate assets in Illinois, Indiana, Louisiana, Michigan, Mississippi, Nebraska, Ohio, Oklahoma and Texas. The LLC received equity distributions in the amount of \$130,798 during 2015.

At December 31, 2015, the LLC owned a 0.5556% interest in Specialty Surgery of Secaucus, LLC (SSS) that was received at the time a promissory note receivable extended to SSS was fully paid. SSS, jointly with a New Jersey LLC, is engaged in the business of developing and operating a two-room ambulatory surgical center located at 201 Meadowland Parkway, Secaucus, New Jersey. The LLC did not have any cost associated with the acquisition of the ownership interest and the estimated fair value of the LLC's equity interest is approximately \$85,000, which is not reflected in the accompanying financial statements.

Effective January 1, 2013, the LLC and the majority owner of Equity Station, Inc. (Equity Station) dissolved the limited partnership. In return for the dissolution of the LLC's 24.9% ownership in the company, the LLC received the rights to the trade name, "Equity Station," and entered into an agreement with the former majority owner of Equity Station allowing them to use the trade name. In exchange, the LLC received 24.9% of the net earnings related to the operations of the former majority owner's use of the trade name. During 2015 and 2014, the LLC did not receive any distributions of earnings for the use of the trade name. This asset was fully impaired prior to 2013.

Credit Risk – Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. It is the LLC's policy to limit its investments in fixed-income securities to investment grade-rated securities (Baa or higher). Additionally, custodial credit risk for investments is the risk that in the event of the failure of the counterparty the LLC will not be able to recover the value of its investment in the possession of an outside party. The LLC was invested in a fixed income mutual fund at December 31, 2015, in the amount of \$881,168 that was held by a third party in the LLC's name and not exposed to custodial credit risk. The fund was not rated by any of the nationally recognized statistical rating organizations.

Concentration of Credit Risk – The LLC places no limit on the amount it may invest in any one issuer. All of the LLC's investment values at December 31, 2015, are in one fixed income mutual fund with a carrying value of \$881,168.

Interest Rate Risk – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. The LLC's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The LLC and its component units' interest rate risk was minimized by the highly liquid nature of its deposits and fixed income mutual fund accounts. The fixed income mutual fund is traded on a public stock exchange and had a modified duration of 1.7 years as of December 31, 2015.

Osage, LLC
Notes to Financial Statements
December 31, 2015 and 2014

Note 4: Capital Assets

Capital asset balances and activity for the years ended December 31 were as follows:

	2015		
	Beginning Balance	Additions/ Transfers	Deletions/ Transfers
	Ending Balance		
Leasehold improvements			
LLC	\$ 6,550	\$ -	\$ -
			\$ 6,550
Total leasehold improvements	6,550	-	-
			6,550
Furniture and fixtures			
LLC	32,149	-	-
OPDG	3,846	-	-
			3,846
Total furniture and fixtures	35,995	-	-
			35,995
Equipment			
LLC	16,166	810	-
AVS	966	-	(966)
			-
Total equipment	17,132	810	(966)
			16,976
Computers			
LLC	34,816	1,251	-
AVS	9,687	-	(9,687)
			-
Total computers	44,503	1,251	(9,687)
			36,067
Total capital assets – historical	104,180	2,061	(10,653)
Less accumulated depreciation	(54,009)	(13,206)	3,409
			(63,806)
Total capital assets, net	\$ 50,171	\$ (11,145)	\$ (7,244)
			\$ 31,782

Osage, LLC
Notes to Financial Statements
December 31, 2015 and 2014

	2014		
	Beginning Balance	Additions/ Transfers	Deletions/ Transfers
	Ending Balance		
Leasehold improvements			
LLC	\$ 6,550	\$ -	\$ -
Total leasehold improvements	6,550	-	-
Furniture and fixtures			
LLC	32,149	-	-
Echota	12,069	-	(12,069)
OPDG	3,846	-	-
Total furniture and fixtures	48,064	-	(12,069)
Equipment			
LLC	8,552	7,614	-
AVS	966	-	-
Echota	1,312	-	(1,312)
Total equipment	10,830	7,614	(1,312)
Computers			
LLC	34,816	-	-
AVS	6,674	3,013	-
Echota	29,653	-	(29,653)
Total computers	71,143	3,013	(29,653)
Total capital assets – historical	136,587	10,627	(43,034)
Less accumulated depreciation	(55,929)	(19,268)	21,188
Total capital assets, net	\$ 80,658	\$ (8,641)	\$ (21,846)

Osage, LLC
Notes to Financial Statements
December 31, 2015 and 2014

Note 5: Note Receivable

In October 2014, the LLC restructured an outstanding note receivable due from Blue Stone in the amount of \$600,000, which was due in full in July 2014. Upon restructuring, Blue Stone paid \$300,000 of the original principal amount and the remaining \$300,000 was refinanced at an annual rate of 7% with principal and interest payments due monthly. As part of the restructuring agreement, the LLC forgave Blue Stone \$27,000 in interest payments owed. The note is collateralized by certain property of the debtor. Bluestone made payments through July 2015; however, Bluestone has experienced negative press related to an investigation which impacted their ability to pay. Therefore, an allowance for uncollectible amounts of \$200,000 and \$30,000 was recorded at December 31, 2015 and 2014, respectively, to protect against the possibility of settling this receivable at less than face value. Due to the increase in allowance for uncollectible amounts, the LLC recorded a charge of \$170,000 to operating expenses during 2015 as a provision for uncollectible receivables.

Note 6: Employee Benefits

The LLC has a defined contribution 401(k) plan which covers all eligible employees of the LLC, OPDG, OIS and Echota. Contributions made by the LLC totaled \$2,610 and \$12,565 for the years ended December 31, 2015 and 2014, respectively.

Note 7: Operating Leases

The LLC leases office space under noncancellable operating lease agreements. Total rent expense for these leases totaled \$52,451 and \$54,480 for the years ended December 31, 2015 and 2014, respectively. Initial lease terms generally range from one to five years.

Future minimum rental payments under the noncancellable operating leases are contractually due as follows as of December 31, 2015:

2016	\$ 52,217
2017	<u>13,149</u>
	<u>\$ 65,366</u>

Note 8: Commitments, Contingencies and Letters of Credit

The LLC is subject to various legal proceedings from time to time that are incidental to its businesses. Management reviews all legal proceedings and evaluates each matter based on the probability that a future event, or events, will result in the incurrence of a liability. Potential liabilities may exist related to possible claims or unallowable costs on prior government contracts until final closure and audits are performed. These legal proceedings, in the opinion of management, are not expected to have a material adverse impact on the LLC's business, results of operations, financial position or cash flows.

Osage, LLC

Notes to Financial Statements

December 31, 2015 and 2014

At December 31, 2014, the LLC had been issued a \$1,000,000 irrevocable standby letter of credit for performance bonding purposes on construction contracts. Standby letters of credit are conditional commitments issued by a financial institution to guarantee the performance of a customer to a third party. These instruments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The letter of credit expired on July 1, 2015, and was being renegotiated as of the report date. Fees associated with the letter are assessed at 1.75% annually on the total amount authorized and certain other charges and totaled \$17,887 and \$17,838 for the years ended December 31, 2015 and 2014, respectively. At December 31, 2015 and 2014, no advances have been made on the letter of credit.

Note 9: Investment in Joint Venture

At December 31, 2015, the LLC had a 55% ownership in its joint venture investment, OMB. The LLC accounts for this investment under the equity method. During the years ended December 31, 2015 and 2014, the LLC recognized a (loss) and gain from this joint venture totaling \$111,204 and \$(278,580), respectively. The LLC's carrying value of this investment totaled \$0 and \$143,718 at December 31, 2015 and 2014, respectively. The 2014 amount represented slightly more than the LLC's 55% ownership of OMB's equity at December 31, 2015 and 2014, because the initial equity contribution to OMB by the LLC was proportionally greater than the initial contribution made by the 45% owner. At December 31, 2015, the management committee of OMB distributed remaining equity to the respective owners in accordance with the joint venture agreement. The LLC received a liquidating distribution in the amount of \$254,922.

Separately issued financial statements are not available for this entity. Therefore, below are the condensed financial statements for OMB as of December 31, 2015 and 2014:

Balance Sheets

	<u>2015</u>	<u>2014</u>
Assets		
Cash	\$ -	\$ 760,705
Accounts receivable	-	254,421
	<u> </u>	<u> </u>
Total assets	<u>\$ -</u>	<u>\$ 1,015,126</u>
Liabilities		
Accounts payable	\$ -	\$ 250,768
Billings in excess of costs and estimated earnings on contracts	-	84,886
Related-party payable	-	463,167
	<u> </u>	<u> </u>
Total liabilities	-	798,821
Members' Equity	<u>-</u>	<u>216,305</u>
	<u> </u>	<u> </u>
Total liabilities and members' equity	<u>\$ -</u>	<u>\$ 1,015,126</u>

Osage, LLC
Notes to Financial Statements
December 31, 2015 and 2014

Statements of Income and Members' Equity

	2015	2014
Operating Revenues		
Contract income	\$ 86,375	\$ 6,560,268
Other	<u>7,285</u>	<u>-</u>
Total operating revenues	<u>93,660</u>	<u>6,560,268</u>
Operating Expenses		
Cost of goods sold	95,402	6,897,182
Selling and administrative expenses	<u>19,879</u>	<u>169,595</u>
Total operating expenses	<u>115,281</u>	<u>7,066,777</u>
Net Loss	<u>(21,621)</u>	<u>(506,509)</u>
Members' Equity, Beginning of Year	216,305	722,814
Member Contributions	223,807	-
Distribution to Members	<u>(418,491)</u>	<u>-</u>
Members' Equity, End of Year	<u><u>\$ -</u></u>	<u><u>\$ 216,305</u></u>

Osage, LLC
Notes to Financial Statements
December 31, 2015 and 2014

Statements of Cash Flows

	2015	2014
Operating Activities		
Net loss	\$ (21,621)	\$ (506,509)
Changes in		
Accounts receivable	254,421	4,687,904
Retainage receivable	-	6,253,222
Costs and estimated earnings in excess of billings on contracts	-	627,788
Accounts payable	(250,768)	(4,953,587)
Billings in excess of costs and estimated earnings on contracts	(84,886)	84,886
Retainage payable	-	(5,444,148)
	<u>(102,854)</u>	<u>749,556</u>
Net cash provided by (used in) operating activities		
Financing Activities		
Net payments on related-party advances	(239,360)	(327,520)
Distribution to members	(418,491)	-
	<u>(657,851)</u>	<u>(327,520)</u>
Net cash used in financing activities		
Increase (Decrease) in Cash	(760,705)	422,036
Cash, Beginning of Year	<u>760,705</u>	<u>338,669</u>
Cash, End of Year	<u>\$ -</u>	<u>\$ 760,705</u>
Extinguishment of related-party payable	<u>\$ 223,807</u>	<u>\$ -</u>

Osage, LLC
Notes to Financial Statements
December 31, 2015 and 2014

Note 10: Blended Component Units' Financial Information

The following pages include schedules which display the condensed combining statements of net position (deficit); revenues, expenses and changes in net position (deficit); and cash flows of the LLC and its blended component units.

2015 Statement of Net Position (Deficit)

	Osage, LLC	OPDG	OIS	Echota	AVS	Eliminations	Total
Assets							
Current assets	\$ 1,415,060	\$ 212,072	\$ 29,267	\$ -	\$ -	\$ -	\$ 1,656,399
Capital assets, net	29,995	1,787	-	-	-	-	31,782
Other assets	1,517,792	-	-	-	-	-	1,517,792
Intercompany receivables	2,061,695	-	-	-	-	(2,061,695)	-
Total assets	<u>5,024,542</u>	<u>213,859</u>	<u>29,267</u>	<u>-</u>	<u>-</u>	<u>(2,061,695)</u>	<u>3,205,973</u>
Liabilities							
Current liabilities	70,492	152,899	-	-	158,948	-	382,339
Intercompany payables	-	220,591	171,264	544,555	1,125,285	(2,061,695)	-
Total liabilities	<u>70,492</u>	<u>373,490</u>	<u>171,264</u>	<u>544,555</u>	<u>1,284,233</u>	<u>(2,061,695)</u>	<u>382,339</u>
Net Position (Deficit)							
Net investment in capital assets	29,995	1,787	-	-	-	-	31,782
Restricted	1,500,000	-	-	-	-	-	1,500,000
Unrestricted	<u>3,424,055</u>	<u>(161,418)</u>	<u>(141,997)</u>	<u>(544,555)</u>	<u>(1,284,233)</u>	<u>-</u>	<u>1,291,852</u>
Total net position (deficit)	<u>\$ 4,954,050</u>	<u>\$ (159,631)</u>	<u>\$ (141,997)</u>	<u>\$ (544,555)</u>	<u>\$ (1,284,233)</u>	<u>\$ -</u>	<u>\$ 2,823,634</u>

Osage, LLC
Notes to Financial Statements
December 31, 2015 and 2014

2015 Statement of Revenues, Expenses and Changes in Net Position (Deficit)

	Osage, LLC	OPDG	OIS	Echota	AVS	Total
Operating Revenues						
Contract income	\$ -	\$ -	\$ -	\$ -	\$ 277	\$ 277
Consulting income	-	754,237	70,785	5,751	-	830,773
Interest and dividends	65,913	22	-	-	-	65,935
Income from investment in joint venture	111,204	-	-	-	-	111,204
Loss on investment	(38,336)	-	-	-	-	(38,336)
Other income (loss)	(1,926)	-	-	13,736	-	11,810
	<u>136,855</u>	<u>754,259</u>	<u>70,785</u>	<u>19,487</u>	<u>277</u>	<u>981,663</u>
Operating Expenses						
Depreciation and amortization	15,819	595	-	-	331	16,745
Operating expenses	<u>808,080</u>	<u>812,721</u>	<u>105,450</u>	<u>15,529</u>	<u>23,057</u>	<u>1,764,837</u>
	<u>823,899</u>	<u>813,316</u>	<u>105,450</u>	<u>15,529</u>	<u>23,388</u>	<u>1,781,582</u>
Operating Income (Loss)	(687,044)	(59,057)	(34,665)	3,958	(23,111)	(799,919)
Nonoperating Expenses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,913)</u>	<u>(6,913)</u>
Change in Net Position (Deficit)	<u>(687,044)</u>	<u>(59,057)</u>	<u>(34,665)</u>	<u>3,958</u>	<u>(30,024)</u>	<u>(806,832)</u>
Net Position (Deficit), Beginning of Year	<u>5,641,094</u>	<u>(100,574)</u>	<u>(107,332)</u>	<u>(548,513)</u>	<u>(1,254,209)</u>	<u>3,630,466</u>
Net Position (Deficit), End of Year	<u>\$ 4,954,050</u>	<u>\$ (159,631)</u>	<u>\$ (141,997)</u>	<u>\$ (544,555)</u>	<u>\$ (1,284,233)</u>	<u>\$ 2,823,634</u>

2015 Statement of Cash Flows

	Osage, LLC	OPDG	OIS	Echota	AVS	Total
Net Cash Provided by (Used in)						
Operating activities	\$ 182,271	\$ (17,390)	\$ (37,718)	\$ 10,105	\$ (3,550)	\$ 133,718
Noncapital financing activities	(95,394)	61,478	64,161	(32,886)	2,641	-
Capital and related financing activities	(2,061)	-	-	-	-	(2,061)
Cash and Cash Equivalents, Beginning of Year	<u>1,868,983</u>	<u>24,244</u>	<u>2,501</u>	<u>22,781</u>	<u>909</u>	<u>1,919,418</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,953,799</u>	<u>\$ 68,332</u>	<u>\$ 28,944</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,051,075</u>

Osage, LLC

Notes to Financial Statements

December 31, 2015 and 2014

2014 Statement of Net Position (Deficit)

	Osage, LLC	OPDG	OIS	Echota	AVS	Eliminations	Total
Assets							
Current assets	\$ 1,780,828	\$ 104,664	\$ 3,863	\$ 37,611	\$ 18,948	\$ -	\$ 1,945,914
Capital assets, net	40,545	2,382	-	-	7,244	-	50,171
Other assets	1,854,316	-	-	-	-	-	1,854,316
Intercompany receivables	1,966,301	-	-	6,674	-	(1,972,975)	-
Total assets	5,641,990	107,046	3,863	44,285	26,192	(1,972,975)	3,850,401
Liabilities							
Current liabilities	894	48,508	4,093	8,683	157,757	-	219,935
Intercompany payables	-	159,113	107,103	584,115	1,122,644	(1,972,975)	-
Total liabilities	894	207,621	111,196	592,798	1,280,401	(1,972,975)	219,935
Net Position (Deficit)							
Net investment in capital assets	40,545	2,382	-	-	7,244	-	50,171
Restricted	1,500,000	-	-	-	-	-	1,500,000
Unrestricted	4,100,551	(102,957)	(107,333)	(548,513)	(1,261,453)	-	2,080,295
Total net position (deficit)	\$ 5,641,096	\$ (100,575)	\$ (107,333)	\$ (548,513)	\$ (1,254,209)	\$ -	\$ 3,630,466

2014 Statement of Revenues, Expenses and Changes in Net Position (Deficit)

	Osage, LLC	OPDG	OIS	Echota	AVS	Total
Operating Revenues						
Contract income	\$ -	\$ 352,819	\$ -	\$ -	\$ 574,548	\$ 927,367
Consulting income	-	-	-	686,746	-	686,746
Interest and dividends	113,802	8	-	-	116	113,926
Loss from investment in joint venture	(278,580)	-	-	-	-	(278,580)
Other income	40,505	-	-	-	2,394	42,899
	(124,273)	352,827	-	686,746	577,058	1,492,358
Operating Expenses						
Depreciation and amortization	25,032	549	-	5,607	2,080	33,268
Operating expenses	847,873	453,957	116,268	734,816	868,851	3,021,765
	872,905	454,506	116,268	740,423	870,931	3,055,033
Operating Loss	(997,178)	(101,679)	(116,268)	(53,677)	(293,873)	(1,562,675)
Nonoperating Expenses	-	-	-	(21,846)	-	(21,846)
Change in Net Position (Deficit)	(997,178)	(101,679)	(116,268)	(75,523)	(293,873)	(1,584,521)
Net Position (Deficit), Beginning of Year	6,638,272	1,105	8,936	(472,990)	(960,336)	5,214,987
Net Position (Deficit), End of Year	\$ 5,641,094	\$ (100,574)	\$ (107,332)	\$ (548,513)	\$ (1,254,209)	\$ 3,630,466

Osage, LLC
Notes to Financial Statements
December 31, 2015 and 2014

2014 Statement of Cash Flows

	Osage, LLC	OPDG	OIS	Echota	AVS	Total
Net Cash Provided by (Used in)						
Operating activities	\$ (155,252)	\$ (137,008)	\$ (113,802)	\$ (2,271)	\$ (442,861)	\$ (851,194)
Noncapital financing activities	(253,459)	159,113	107,103	(49,041)	36,284	-
Capital and related financing activities	(7,614)	-	-	-	(3,013)	(10,627)
Cash and Cash Equivalents, Beginning of Year	<u>2,285,308</u>	<u>2,139</u>	<u>9,200</u>	<u>74,093</u>	<u>410,499</u>	<u>2,781,239</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,868,983</u>	<u>\$ 24,244</u>	<u>\$ 2,501</u>	<u>\$ 22,781</u>	<u>\$ 909</u>	<u>\$ 1,919,418</u>

Note 11: Location Closures

Effective December 31, 2014, the LLC's management closed the administrative locations of AVS Wisconsin and Echota Tennessee. General managers of these companies were separated in December and November, respectively. AVS and Echota are currently being managed from Oklahoma, and the LLC's management has minimized operating expenses of AVS and Echota until a determination related to the future operations of AVS and Echota is made.

Note 12: Litigation

The LLC has filed certain lawsuits; however, the outcome of such matters cannot be determined at this time but may result in recovery of prior expenditures.

In 2015, the LLC filed a lawsuit related to the New Market Technology Fund, LLC investment against multiple parties involved in the original investment transaction of \$1,000,000.

In 2015, the LLC filed a lawsuit related to the Equity Station investment against multiple parties involved in the original investment transaction. In March 2016, a settlement agreement and guarantee was executed releasing certain parties from the original lawsuit which included release of approximately \$140,000 to the LLC.

In March 2016, a petition was filed for a claim related to AVS' investment acquisition that included multiple defendants.