

Osage Nation

Independent Auditor's Report and Financial Statements

September 30, 2015



Osage Nation
September 30, 2015

Contents

Independent Auditor's Report	1
Management's Discussion and Analysis	4
Government-Wide Financial Statements	
Statement of Net Position	11
Statement of Activities	12
Fund Financial Statements	
Balance Sheet – Governmental Funds.....	13
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position	14
Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds	15
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	16
Statement of Net Position – Proprietary Funds	17
Statement of Revenues, Expenses and Changes in Net Position – Proprietary Funds.....	18
Statement of Cash Flows – Proprietary Funds	19
Combining Statement of Net Position – Discretely Presented Component Units.....	21
Combining Statement of Revenues, Expenses and Changes in Net Position – Discretely Presented Component Units	22
Notes to Financial Statements	23

Independent Auditor's Report

Principal Chief and Honorable Members
of the Osage Nation Congress
Osage Nation
Pawhuska, Oklahoma

Report on the Financial Statements

We have audited the accompanying basic financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Osage Nation (the Nation) as of and for the year ended September 30, 2015, and the related notes to the basic financial statements, which collectively comprise the Nation's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Osage Casinos, which is a discretely presented component unit of the Nation. The financial statements of the Osage Casinos, which collectively comprise approximately 93.6% of total assets and 99.5% of total operating revenues of the aggregate discretely presented component units, were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Osage Casinos, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Osage Casinos, a component unit included in the financial statements of the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards*.

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 and the other auditor express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Osage Nation as of September 30, 2015, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Management has omitted budget to actual information that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Principal Chief and Honorable Members
of the Osage Nation Congress
Osage Nation
Page 3

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated July 8, 2016, on our consideration of the Nation'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 the Nation's internal control over financial reporting and compliance.

BKD, LLP

Tulsa, Oklahoma
July 8, 2016

Osage Nation

Management's Discussion and Analysis

Year Ended September 30, 2015

This management's discussion and analysis (MD&A) of the Osage Nation's (the Nation) fiscal year 2015 financial statements is provided to give an overview of the Nation's financial activities for fiscal year 2015. The information in this MD&A should be read in conjunction with the Nation's financial statements, including the notes to the financial statements. All amounts are expressed in thousands of dollars.

Financial Highlights

- The assets of the Nation exceeded its liabilities at the close of fiscal year 2015 by \$273,336. Of this amount, \$216,737 represents unrestricted net position, which may be used to meet the government's ongoing obligations to citizens and creditors.
- The Nation's total net position increased \$30,551 from the prior fiscal year, of which \$22,246 is due to a net increase in equity investments and equity in component units.
- The Nation's governmental funds reported combined fund balances of \$50,979, a decrease of \$11,646 from the prior year. The decrease in fund equity is primarily related to increased capital outlay of \$7,217 and increased debt service of \$3,338 related to the construction of the master campus.
- The Nation maintains a permanent reserve of \$30,000. The funds cannot be spent without action by the Osage Nation Congress.
- The Nation completed construction of the first building to house governmental operations. The construction of the second building was completed in mid-October 2015.

Overview of the Financial Statements

This MD&A is intended to serve as an introduction to the Nation's basic financial statements, which are comprised of the following three components:

1. Government-wide financial statements
2. Fund financial statements and combining statements for discretely presented component units
3. Notes to the financial statements

Government-Wide Financial Statements

Government-wide financial statements are designed to provide the reader with a broad overview of the Nation's finances, similar to private sector business financial statements.

The statement of net position presents information on all of the Nation's assets and liabilities, with the difference reported as net position. Over time, increases or decreases in net position serve as an indicator of whether the financial position of the Nation is improving or deteriorating.

The statement of activities provides information on how the government's net position changed during the year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of the cash flows (full accrual method). Some revenues and expenses reported in the statement of activities will only result in cash flows in future fiscal years, for example, unused vacation leave and billed but not collected revenues.

The government-wide financial statements of the Nation are divided into three categories:

- **Governmental Activities** – Most of the Nation's basic governmental services are reported here, such as health and social services, public safety, language and culture, and general governmental functions. Distributions from the Nation's casino operations, tax collections and federal grants finance the majority of these activities.
- **Business-Type Activities** – The Nation collects tobacco taxes and issues Osage Nation tribal tags which generate tax revenue for the Nation. Osage Properties provides property management and maintenance services for certain land and properties owned by the Nation. Osage Properties charges a space cost to the Nation's programs to recover a portion of the costs associated with property management. These activities, along with several smaller operations, such as daycare facilities and fitness centers, are classified as business-type activities.
- **Discretely Presented Component Units** – The Nation includes Osage Casinos, the Osage Nation Foundation and Osage Home Health as discretely presented component units in its report. These operations are included as component units because the Nation is financially accountable for them. Osage Casinos issues a separate audit report. Osage Home Health and the Osage Nation Foundation are audited with the primary government.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been separated for specific activities or objectives. The Nation utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide information about the Nation's most significant funds, not the Nation as a whole. The funds of the Nation are divided into two categories:

- **Governmental funds** – Most of the services provided by the Nation are financed and reported through the governmental funds. The fund financial statements focus on cash and other financial assets that can readily be converted to cash at year-end are available for spending. The governmental fund statements provide a detailed short-term view that allows the reader to easily determine whether there are more or fewer resources that can be spent in the near future to finance the Nation's programs. Because the fund statements do not include the long-term assets and debts of the government, reconciliation is provided that explains the differences between the fund and government-wide statements.
- **Proprietary funds** – These funds are used to report activities which operate similar to private-sector enterprises. These funds charge fees for goods and services provided to customers and provide the same type of information as the business-type activities in the government-wide financial statements. Proprietary fund financial statements utilize the full accrual basis of accounting and, therefore, no reconciliation is needed between the proprietary fund financial statements and the business-type government-wide financial statements. The Nation utilizes two types of proprietary funds:
 - Enterprise funds are used to report the same functions as presented in the business-type activities in the government-wide financial statements, but with more detailed information, such as cash flow.

- Internal service funds are used to report activities that provide goods or services to all of the Nation's programs. There is one internal service fund which is used to provide information about the Nation's self-funded employee health plan.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23.

Government-Wide Financial Analysis

As of September 30, 2015, the Nation's combined net position was \$273,336. Total assets increased \$25,858 (9%) and total liabilities decreased by \$4,692 (15%). The net position of governmental activities increased \$31,069 (13%) in 2015. The net position of business-type activities decreased by \$519 (4%).

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 70,535	\$ 83,538	\$ 2,153	\$ 2,144	\$ 72,688	\$ 85,682
Capital assets	48,385	31,249	9,381	9,911	57,766	41,160
Investment in Osage, LLC	3,210	3,807	-	-	3,210	3,807
Equity interest in component units	167,144	144,301	-	-	167,144	144,301
Total assets	289,274	262,895	11,534	12,055	300,808	274,950
Current and other liabilities	27,238	31,928	234	236	27,472	32,164
Total liabilities	27,238	31,928	234	236	27,472	32,164
Net position						
Net investment in capital assets	39,963	27,520	9,381	9,911	49,344	37,431
Restricted	7,255	7,190	-	-	7,255	7,190
Unrestricted	214,818	196,257	1,919	1,908	216,737	198,165
Total net position	\$ 262,036	\$ 230,967	\$ 11,300	\$ 11,819	\$ 273,336	\$ 242,786

The unrestricted net position (\$216,737) is available to meet future obligations of the Nation. This includes the Nation's equity interests in component units (\$167,144) and equity in the Nation's businesses (\$3,210).

Changes in Net Position of the Nation – The Nation's total revenues increased \$15,323 (17%) in 2015. The increases were primarily in equity in component units (\$9,715) and distributions received from gaming operations (\$6,856) offset by decreases in investment income (\$1,107).

Total expenses for the governmental activities decreased \$287 (0.4%) to \$67,724. The Nation's expenses cover a wide range of services, including health and human services, housing, language and culture, education, public safety, public works and general government. The significant changes were:

- General government expenses increased \$682 (3%). The increase is primarily due to increased program expenditures as well as increased investments in technology and software.
- Education expenses increased \$1,357 (11%) primarily in scholarships (\$1,168). The Nation provides higher education scholarships to all eligible members out of tribal discretionary funds.

- Health and human services expenses increased \$1,616 (11%) primarily in member health benefits (\$999).
- Environmental management expenses decreased by \$458 (23%) primarily related to a hydrology study in 2014.
- Public works expenses decreased by \$4,548 (77%) primarily due to a focus on campus development expenditures which are part of the Nation's capital projects.

Below is a summary of changes in net position for 2015 compared to 2014:

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues						
Program revenues						
Charges for services	\$ 2,325	\$ 2,261	\$ 3,436	\$ 1,563	\$ 5,761	\$ 3,824
Operating grants/contributions	18,527	19,817	98	125	18,625	19,942
Capital grants/contributions	-	380	-	-	-	380
General revenues						
Decrease in equity in						
Osage, LLC	(597)	(1,438)	-	-	(597)	(1,438)
Increase in equity in						
component units	22,843	13,128	-	-	22,843	13,128
Interest expense	(123)	(35)	-	-	(123)	(35)
Investment income (loss)	(174)	907	45	71	(129)	978
Tax revenue	2,223	2,144	-	-	2,223	2,144
Indirect cost recoveries	6,136	5,211	-	-	6,136	5,211
Gaming distributions received	47,322	40,466	-	-	47,322	40,466
Other	942	1,093	-	1,987	942	3,080
	<u>99,424</u>	<u>83,934</u>	<u>3,579</u>	<u>3,746</u>	<u>103,003</u>	<u>87,680</u>
Expenses						
General government	25,398	24,716	-	-	25,398	24,716
Education	13,827	12,470	-	-	13,827	12,470
Health and human services	16,946	15,330	-	-	16,946	15,330
Community services	599	594	-	-	599	594
Culture and language	2,370	2,428	-	-	2,370	2,428
Environmental management	1,542	2,000	-	-	1,542	2,000
Housing services	1,466	1,370	-	-	1,466	1,370
Public safety	2,199	2,148	-	-	2,199	2,148
Public works	1,322	5,870	-	-	1,322	5,870
Unallocated depreciation	2,055	1,085	-	-	2,055	1,085
Osage Properties	-	-	1,863	2,087	1,863	2,087
Revenue Tax	-	-	477	541	477	541
Other	-	-	2,166	2,284	2,166	2,284
	<u>67,724</u>	<u>68,011</u>	<u>4,506</u>	<u>4,912</u>	<u>72,230</u>	<u>72,923</u>
Changes Before Transfers	<u>31,700</u>	<u>15,923</u>	<u>(927)</u>	<u>(1,166)</u>	<u>30,773</u>	<u>14,757</u>
Distributions to Related Parties	<u>(222)</u>	<u>(207)</u>	<u>-</u>	<u>-</u>	<u>(222)</u>	<u>(207)</u>
Transfers	<u>(409)</u>	<u>(1,357)</u>	<u>409</u>	<u>1,357</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>31,069</u>	<u>14,359</u>	<u>(518)</u>	<u>191</u>	<u>30,551</u>	<u>14,550</u>
Net Position, Beginning of Year	<u>230,967</u>	<u>216,608</u>	<u>11,818</u>	<u>11,628</u>	<u>242,785</u>	<u>228,236</u>
Net Position, End of Year	<u>\$ 262,036</u>	<u>\$ 230,967</u>	<u>\$ 11,300</u>	<u>\$ 11,819</u>	<u>\$ 273,336</u>	<u>\$ 242,786</u>

Business-Type Activities – The Nation provides services that generally require a fee for service. Those operations are classified as business-type activities. The Revenue Tax operation is responsible for tax collections for the Nation. The Nation issues vehicle license plates, collects sales and tobacco taxes and collects motor fuel taxes pursuant to a compact with the state of Oklahoma. The net Revenue Tax collections, after expenses, are transferred to the General Fund to fund governmental programs. The Osage Properties operation is responsible for maintenance of all Osage Nation property and collects a fee from programs housed in the properties. Below is a summary of revenues, expenses and transfers for the business-type activities:

	Revenues	Expenses	Transfers	Change in Net Position
Business-Type Activities				
Osage Properties	\$ 858	\$ 1,863	\$ 778	\$ (227)
Revenue Tax	1,508	477	(1,000)	31
Nonmajor Proprietary Funds	1,213	2,166	631	(322)
	<u>\$ 3,579</u>	<u>\$ 4,506</u>	<u>\$ 409</u>	<u>\$ (518)</u>

Governmental Funds Financial Analysis

Governmental funds have a combined fund balance of \$50,979, down \$11,646 (19%) from 2014. There is a deficit unassigned fund balance of approximately -2% of the combined fund balance. A positive unassigned fund balance means it is available for spending at the Nation's discretion. Other categories of fund balance include restricted (\$7,254), which represents balances restricted by external agreements, assigned (\$214) and committed (\$44,372), which represents balances that can only be used for the specific purposes determined by a legislative act of the Osage Nation Congress.

The General Fund is the largest fund of the Nation. The General Fund's fund balance decreased \$11,649 to \$49,538. Of this amount, there is a deficit unassigned fund balance which represents approximately -2% of the total fund balance. The remaining fund balance of \$50,399 is classified as restricted (\$7,187) and committed (\$43,212). Of the committed fund balance total, \$30,000 is committed as a Permanent Fund which may not be spent without legislative action by the Osage Nation Congress. The Permanent Fund represents approximately 44% of General Fund expenditures. The decrease in fund balance is primarily due to increased capital outlay (\$5,391) and debt service (\$3,338) related to construction of new buildings to house governmental operations.

Proprietary Funds Financial Analysis

Proprietary funds had a combined net position of \$11,300, a decrease of \$519 from 2014.

- The Osage Properties fund had an operating loss of \$1,004 with transfers in for operating costs of \$778. The majority of the Osage Properties fund net position is invested in capital assets of \$8,442 (94%).
- The Revenue Tax fund had operating income of \$1,028 with transfers out to the General Fund of \$1,000 and an ending net position of \$226. The fund generally transfers residual income to the General Fund.
- Other proprietary funds had a combined loss before transfers of \$953 with transfers in of \$631 and an ending net position of \$2,062.

Budgetary Highlights

The Nation requires an appropriation by the Osage Nation Congress prior to expenditure of funds. The annual budget for tribal funds cannot exceed the total of current year revenue projections and prior year fund balances for the Treasury Fund. The 2015 actual expenditures compared to budget are shown below:

	General Fund 2015		
	Actual	Budget	Variance
Revenues and Gaming Distributions			
Tax revenue	\$ 2,223	\$ 2,000	\$ 223
Indirect cost recoveries	6,136	6,612	(476)
Investment income (loss)	(230)	620	(850)
Program and other revenue	2,969	2,188	781
Casino distribution	47,322	46,000	1,322
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 58,420</u>	<u>\$ 57,420</u>	<u>\$ 1,000</u>
Expenditures			
Community services	\$ 548	\$ 634	\$ 86
Culture and language	2,369	2,751	382
Education	10,958	15,085	4,127
Environmental management	994	1,172	178
General government	24,750	28,368	3,618
Health and human services	7,324	9,625	2,301
Housing services	226	260	34
Public safety	1,022	1,049	27
Capital outlay	16,767	17,368	601
Debt service – principal	3,500	3,500	-
Debt service – interest	123	100	(23)
	<u> </u>	<u> </u>	<u> </u>
Total	<u>\$ 68,581</u>	<u>\$ 79,912</u>	<u>\$ 11,331</u>

The Nation has established several revolving funds by statute, which allows automatic carryover to subsequent years of the balances in these funds without further appropriation. For comparative purposes, the budget amount shown above for 2015 includes the balances in these funds at the end of 2014.

Capital Assets and Debt Administration

Capital Assets – The Nation has a \$49,344 net investment in capital assets at the end of fiscal year 2015. This represents a net increase of \$11,913 over the prior year. The most significant increases are related to construction of two office buildings for the main Osage Nation campus, one of which was completed at year-end and is reflected in the buildings category. The second building was completed in October 2015 and remained in the construction in progress category at September 30, 2015.

	Capital Assets, Net of Depreciation					
	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 4,013	\$ 8,454	\$ 2,827	\$ 2,827	\$ 6,840	\$ 11,281
Buildings	24,095	8,289	6,212	6,654	30,307	14,943
Equipment	1,747	1,130	342	426	2,089	1,556
Vehicles	539	704	-	4	539	708
Construction in progress	17,991	12,672	-	-	17,991	12,672
	<u>\$ 48,385</u>	<u>\$ 31,249</u>	<u>\$ 9,381</u>	<u>\$ 9,911</u>	<u>\$ 57,766</u>	<u>\$ 41,160</u>

Long-Term Liabilities – The Nation entered into a loan agreement of \$10,000 with Bank of Oklahoma in 2014 to partially fund the campus construction plan. As of September 30, 2015, \$6,250 was outstanding on the loan.

Economic Factors and Next Year's Budget

The local economy remains relatively stable with some growth expected in 2016. The additional capital investments by the Nation's gaming enterprise should aid in revenue growth for 2016.

Contacting the Nation's Financial Management

This financial report is intended to provide elected officials and citizens of the Nation with a general overview of the Nation's finances. For questions regarding this report, contact the Nation's Treasurer at: Osage Nation, 1071 Grandview Lane, Pawhuska, Oklahoma 74056.

Osage Nation
Statement of Net Position
September 30, 2015

	Primary Government			
	Governmental Activities	Business- Type Activities	Total	Component Units
Assets				
Cash and cash equivalents	\$ 15,630,808	\$ 2,486,747	\$ 18,117,555	\$ 52,506,769
Investments	47,145,475	372,190	47,517,665	-
Accounts receivable	504,451	186,706	691,157	1,348,236
Due from other governments	968,534	-	968,534	-
Prepaid expenses and other	132,772	109,355	242,127	1,457,277
Inventory	-	21,246	21,246	1,535,098
Restricted investments	5,129,660	-	5,129,660	-
Due from other funds – internal balances	1,023,685	(1,023,685)	-	-
Investment in Osage Nation businesses	3,210,108	-	3,210,108	-
Equity interests in component units	167,143,727	-	167,143,727	-
Capital assets, net	48,385,040	9,381,578	57,766,618	136,937,150
Total assets	289,274,260	11,534,137	300,808,397	193,784,530
Liabilities				
Accounts payable	4,173,996	101,127	4,275,123	5,401,337
Retainage payable	945,088	-	945,088	-
Accrued liabilities	541,966	-	541,966	9,124,045
Health claims liability	543,233	-	543,233	-
Other current liabilities	491,937	55,774	547,711	-
Unearned grant revenue	13,300,776	-	13,300,776	-
Compensated absences	990,855	76,845	1,067,700	-
Annuity payable	-	-	-	105,928
Notes payable				
Due within one year	1,000,000	-	1,000,000	-
Due in more than one year	5,250,291	-	5,250,291	-
Total liabilities	27,238,142	233,746	27,471,888	14,631,310
Net Position				
Net investment in capital assets	39,963,113	9,381,578	49,344,691	\$ 136,937,150
Restricted for education	2,057,064	-	2,057,064	-
Restricted for collateral pledged	5,129,660	-	5,129,660	-
Restricted for program services	67,737	-	67,737	-
Restricted for ranch maintenance	-	-	-	40,887
Unrestricted	214,818,544	1,918,813	216,737,357	42,175,183
Total net position	\$ 262,036,118	\$ 11,300,391	\$ 273,336,509	\$ 179,153,220

Osage Nation

Statement of Activities

Year Ended September 30, 2015

				Primary Government			
				Net Revenues (Expenses) and			
				Changes in Net Position			
		Program Revenues					
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total	Component Units
Governmental Activities							
General government	\$ 25,397,676	\$ 1,354,928	\$ 462,020	\$ (23,580,728)	\$ -	\$ (23,580,728)	\$ -
Education	13,827,450	18,357	2,416,732	(11,392,361)	-	(11,392,361)	-
Health and human services	16,945,460	270,480	9,317,115	(7,357,865)	-	(7,357,865)	-
Community services	599,277	-	51,423	(547,854)	-	(547,854)	-
Culture and language	2,369,530	517,725	-	(1,851,805)	-	(1,851,805)	-
Environmental management	1,541,466	4,632	497,454	(1,039,380)	-	(1,039,380)	-
Housing services	1,466,145	73,097	1,169,378	(223,670)	-	(223,670)	-
Public safety	2,199,427	86,182	1,057,733	(1,055,512)	-	(1,055,512)	-
Public works	1,321,715	-	3,554,972	2,233,257	-	2,233,257	-
Unallocated depreciation	2,055,455	-	-	(2,055,455)	-	(2,055,455)	-
Total governmental activities	67,723,601	2,325,401	18,526,827	(46,871,373)	-	(46,871,373)	-
Business-Type Activities							
Osage Properties	1,863,053	858,696	-	-	(1,004,357)	(1,004,357)	-
Revenue Tax	477,450	1,505,707	-	-	1,028,257	1,028,257	-
Other	2,165,822	1,071,880	98,397	-	(995,545)	(995,545)	-
Total business-type activities	4,506,325	3,436,283	98,397	-	(971,645)	(971,645)	-
Total primary government	\$ 72,229,926	\$ 5,761,684	\$ 18,625,224	(46,871,373)	(971,645)	(47,843,018)	-
Component Units	\$ 133,325,740	\$ 203,619,058	\$ -	-	-	-	70,293,318
General Revenues							
Investment income (loss)				(174,279)	44,881	(129,398)	11,737
Tobacco tax revenue				2,223,020	-	2,223,020	-
Interest expense				(122,707)	-	(122,707)	-
Other				942,034	-	942,034	-
Indirect cost recoveries				6,136,192	-	6,136,192	-
Gaming distributions received				47,322,127	-	47,322,127	(47,322,127)
Decrease in equity in Osage Nation businesses				(597,370)	-	(597,370)	-
Increase in equity in component units				22,842,971	-	22,842,971	-
Distribution to ONES, LLC				(222,304)	-	(222,304)	-
Total general revenues				78,349,684	44,881	78,394,565	(47,310,390)
Transfers				(408,876)	408,876	-	-
Total general revenues and transfers				77,940,808	453,757	78,394,565	(47,310,390)
Change in Net Position				31,069,435	(517,888)	30,551,547	22,982,928
Net Position, Beginning of Year				230,966,683	11,818,279	242,784,962	156,170,292
Net Position, End of Year				\$ 262,036,118	\$ 11,300,391	\$ 273,336,509	\$ 179,153,220

Osage Nation
Balance Sheet – Governmental Funds
September 30, 2015

	General Fund	Department of Housing and Urban Development	Department of Health and Human Services	Department of Interior	Department of Transportation	Department of Agriculture	Other Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 11,414,357	\$ 360,779	\$ 708,896	\$ 2,430,681	\$ 579,033	\$ 23,100	\$ 109,045	\$ 15,625,891
Investments	36,587,879	-	-	-	10,557,596	-	-	47,145,475
Accounts receivable	444,224	-	9,758	36,779	-	-	13,690	504,451
Due from other funds	798,292	78,724	39,710	-	-	-	-	916,726
Due from other governments	-	11,178	529,573	32,357	-	207,970	187,456	968,534
Other assets	57,357	6,233	32,975	22,230	2,442	8,806	2,729	132,772
Restricted investments	5,129,660	-	-	-	-	-	-	5,129,660
Total assets	<u>\$ 54,431,769</u>	<u>\$ 456,914</u>	<u>\$ 1,320,912</u>	<u>\$ 2,522,047</u>	<u>\$ 11,139,071</u>	<u>\$ 239,876</u>	<u>\$ 312,920</u>	<u>\$ 70,423,509</u>
Liabilities and Fund Balances								
Liabilities								
Accounts payable	\$ 2,883,582	\$ 10,310	\$ 177,196	\$ 69,039	\$ 750,399	\$ 127,627	\$ 16,898	\$ 4,035,051
Retainage payable	812,533	-	-	-	132,555	-	-	945,088
Accrued payroll liabilities	379,884	6,781	74,352	26,822	9,488	18,917	21,929	538,173
Due to other funds	-	-	-	54,834	22,069	31,070	25,257	133,230
Unearned grant revenue	673,286	80,629	695,399	2,346,813	9,463,274	6,295	35,080	13,300,776
Other accrued liabilities	144,513	347,424	-	-	-	-	-	491,937
Total liabilities	<u>4,893,798</u>	<u>445,144</u>	<u>946,947</u>	<u>2,497,508</u>	<u>10,377,785</u>	<u>183,909</u>	<u>99,164</u>	<u>19,444,255</u>
Fund Balances								
Restricted	7,186,724	11,770	-	-	-	55,967	-	7,254,461
Committed	43,212,292	-	373,965	24,539	761,286	-	-	44,372,082
Assigned	-	-	-	-	-	-	213,756	213,756
Unassigned	(861,045)	-	-	-	-	-	-	(861,045)
Total fund balances	<u>49,537,971</u>	<u>11,770</u>	<u>373,965</u>	<u>24,539</u>	<u>761,286</u>	<u>55,967</u>	<u>213,756</u>	<u>50,979,254</u>
Total liabilities and fund balances	<u>\$ 54,431,769</u>	<u>\$ 456,914</u>	<u>\$ 1,320,912</u>	<u>\$ 2,522,047</u>	<u>\$ 11,139,071</u>	<u>\$ 239,876</u>	<u>\$ 312,920</u>	<u>\$ 70,423,509</u>

Osage Nation

Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Position

September 30, 2015

Total Governmental Fund Balances	\$ 50,979,254
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Amounts reported for governmental activities in the statement of net position are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	48,385,040
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The equity interests in Osage Nation businesses are not an available resource and, therefore, are not reported in the funds	3,210,108
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The equity interests in component units are not an available resource and, therefore, are not reported in the funds	167,143,727
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Some liabilities, including notes payable and compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds	(7,241,146)
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Internal service funds are used by the Nation to charge the costs of certain activities, such as insurance, to individual funds; the assets and liabilities of internal service funds are included in governmental activities on the statement of net position	(440,865)
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Net Position – Governmental Activities, per the Statement of Net Position	\$ 262,036,118
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Osage Nation

Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds

Year Ended September 30, 2015

	General Fund	Department of Housing and Urban Development	Department of Health and Human Services	Department of Interior	Department of Transportation	Department of Agriculture	Other Governmental Funds	Total Governmental Funds
Revenues								
Intergovernmental	\$ -	\$ 1,169,378	\$ 6,306,769	\$ 2,719,495	\$ 3,554,972	\$ 3,590,425	\$ 1,186,866	\$ 18,527,905
Tobacco tax revenue	2,223,020	-	-	-	-	-	-	2,223,020
Program revenue	2,026,309	35,745	132,832	83,686	-	17,045	28,706	2,324,323
Indirect cost recoveries	6,136,192	-	-	-	-	-	-	6,136,192
Investment revenue	(230,479)	1,278	-	-	54,922	-	-	(174,279)
Other revenue	942,034	-	-	-	-	-	-	942,034
Total revenues	11,097,076	1,206,401	6,439,601	2,803,181	3,609,894	3,607,470	1,215,572	29,979,195
Expenditures								
General government	24,749,975	-	-	461,903	-	-	-	25,211,878
Education	10,958,553	-	2,149,656	329,634	-	-	389,607	13,827,450
Health and human services	7,323,618	-	4,662,250	778,186	-	3,675,883	505,523	16,945,460
Community services	547,854	-	51,423	-	-	-	-	599,277
Culture and language	2,369,530	-	-	-	-	-	-	2,369,530
Environmental management	993,826	-	-	108,198	-	-	439,442	1,541,466
Housing services	226,635	1,239,510	-	-	-	-	-	1,466,145
Public safety	1,022,054	-	-	1,177,373	-	-	-	2,199,427
Public works	-	-	-	-	1,321,715	-	-	1,321,715
Capital outlay	16,766,735	-	-	-	2,420,574	23,998	-	19,211,307
Debt service								
Principal	3,499,709	-	-	-	-	-	-	3,499,709
Interest	122,707	-	-	-	-	-	-	122,707
Total expenditures	68,581,196	1,239,510	6,863,329	2,855,294	3,742,289	3,699,881	1,334,572	88,316,071
Deficiency of Revenues over Expenditures	(57,484,120)	(33,109)	(423,728)	(52,113)	(132,395)	(92,411)	(119,000)	(58,336,876)
Other Financing Sources (Uses)								
Transfers in	-	9,489	565,510	28,086	-	75,242	177,999	856,326
Transfers out	(1,265,202)	-	-	-	-	-	-	(1,265,202)
Distributions to related parties	(222,304)	-	-	-	-	-	-	(222,304)
Gaming distributions	47,322,127	-	-	-	-	-	-	47,322,127
Total other financing sources (uses)	45,834,621	9,489	565,510	28,086	-	75,242	177,999	46,690,947
Net Change in Fund Balances	(11,649,499)	(23,620)	141,782	(24,027)	(132,395)	(17,169)	58,999	(11,645,929)
Fund Balances, Beginning of Year	61,187,470	35,390	232,183	48,566	893,681	73,136	154,757	62,625,183
Fund Balances, End of Year	\$ 49,537,971	\$ 11,770	\$ 373,965	\$ 24,539	\$ 761,286	\$ 55,967	\$ 213,756	\$ 50,979,254

Osage Nation

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

Year Ended September 30, 2015

Net Change in Fund Balances – Governmental Funds \$ (11,645,929)

Amounts reported for governmental activities in the statement
of activities are different due to

Capital outlays are reported in governmental funds as
expenditures. However, in the statement of activities, the cost
of those assets is allocated over their estimated useful lives
as depreciation expense. In the current period, capital asset
reconciling items included

Capital outlay	19,211,302	
Net book value of disposed assets	(19,694)	
Depreciation expense	(2,055,455)	17,136,153

The decrease in equity in Osage Nation businesses in the statement of activities does not provide current financial resources and is not reported as expense in the funds	(597,370)
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The increase in equity in component units in the statement of activities does not provide current financial resources and is not reported as revenue in the funds	22,842,971
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Internal service funds are used by the Nation to charge the costs of certain activities to the individual funds. The net revenue of internal service funds applicable to governmental activities is reported with governmental activities	333,930
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Compensated absences are expensed as used in the governmental funds. However, they are expensed as incurred on the statement of activities. In the current year, the amount incurred exceeded the amount used	(500,029)
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Principal payments are expended as made in the governmental funds. However, they are reflected as a reduction of long-term debt on the statement of net position	3,499,709
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Change in Net Position of Governmental Activities	<u><u>\$ 31,069,435</u></u>
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Osage Nation
Statement of Net Position – Proprietary Funds
September 30, 2015

	Business-Type Activities				Governmental Activities
	Osage Properties	Revenue Tax	Nonmajor Proprietary Funds	Total	Internal Service Fund
Assets					
Current Assets					
Cash and cash equivalents	\$ 546,169	\$ 1,159,886	\$ 780,692	\$ 2,486,747	\$ 4,917
Investments	-	-	372,190	372,190	-
Accounts receivable	-	81,441	105,265	186,706	-
Prepaid expenses	90,943	1,238	17,174	109,355	-
Due from other funds	-	-	-	-	240,189
Inventory	-	21,246	-	21,246	-
Total current assets	637,112	1,263,811	1,275,321	3,176,244	245,106
Noncurrent Assets					
Capital assets					
Nondepreciable capital assets	2,112,020	-	715,000	2,827,020	-
Depreciable capital assets	13,002,670	45,659	1,897,107	14,945,436	-
Accumulated depreciation	(6,672,607)	(45,659)	(1,672,612)	(8,390,878)	-
Capital assets, net	8,442,083	-	939,495	9,381,578	-
Total assets	9,079,195	1,263,811	2,214,816	12,557,822	245,106
Liabilities					
Current Liabilities					
Accounts payable	36,845	7,470	56,812	101,127	138,945
Other accrued liabilities	11,629	16,284	27,861	55,774	3,793
Claims liability	-	-	-	-	543,233
Compensated absences	13,663	5,536	57,646	76,845	-
Due to other funds	4,487	1,008,390	10,808	1,023,685	-
Total current liabilities	66,624	1,037,680	153,127	1,257,431	685,971
Net Position					
Net investment in capital assets	8,442,083	-	939,495	9,381,578	-
Unrestricted	570,488	226,131	1,122,194	1,918,813	(440,865)
Total net position	\$ 9,012,571	\$ 226,131	\$ 2,061,689	\$ 11,300,391	\$ (440,865)

Osage Nation
Statement of Revenues, Expenses and Changes in
Net Position – Proprietary Funds
Year Ended September 30, 2015

	Business-Type Activities				Governmental Activities
	Osage Properties	Revenue Tax	Nonmajor Proprietary Funds	Total	Internal Service Fund
Operating Revenues					
Utility income	\$ -	\$ -	\$ 689,678	\$ 689,678	\$ -
Rental income	858,696	-	57,774	916,470	-
Tax revenue	-	1,449,346	-	1,449,346	-
Intergovernmental	-	-	98,397	98,397	-
Claims cost recovery	-	-	-	-	4,456,739
Other revenue	-	56,361	324,428	380,789	-
Total operating revenues	858,696	1,505,707	1,170,277	3,534,680	4,456,739
Operating Expenses					
Cost of merchandise sales	-	12,150	460,785	472,935	-
Salaries and fringe benefits	548,470	261,692	1,075,756	1,885,918	-
Contractual services	39,024	-	15,489	54,513	-
Travel and training	22,362	5,463	6,850	34,675	-
Expendable equipment	23,424	1,874	14,407	39,705	-
Repairs and maintenance/occupancy	54,315	73,275	92,226	219,816	-
Tribal member assistance	-	-	89,609	89,609	-
Claims incurred	-	-	-	-	4,122,809
Indirect cost	167,862	89,427	310,970	568,259	-
Other supplies and expenses	518,961	27,180	74,754	620,895	-
Depreciation	488,635	6,389	24,976	520,000	-
Total operating expenses	1,863,053	477,450	2,165,822	4,506,325	4,122,809
Operating Income (Loss)	(1,004,357)	1,028,257	(995,545)	(971,645)	333,930
Nonoperating Revenue					
Interest revenue	-	2,483	42,398	44,881	-
Total nonoperating revenue	-	2,483	42,398	44,881	-
Income (Loss) Before Transfers	(1,004,357)	1,030,740	(953,147)	(926,764)	333,930
Transfers In (Out)	777,611	(1,000,000)	631,265	408,876	-
Change in Net Position	(226,746)	30,740	(321,882)	(517,888)	333,930
Net Position, Beginning of Year	9,239,317	195,391	2,383,571	11,818,279	(774,795)
Net Position, End of Year	\$ 9,012,571	\$ 226,131	\$ 2,061,689	\$ 11,300,391	\$ (440,865)

Osage Nation
Statement of Cash Flows – Proprietary Funds
Year Ended September 30, 2015

	Business-Type Activities				Governmental Activities
	Osage Properties	Revenue Tax	Nonmajor Proprietary Funds	Total	Internal Service Fund
Operating Activities					
Cash received from customers	\$ 858,696	\$ 1,501,233	\$ 1,166,613	\$ 3,526,542	\$ 4,616,464
Cash paid to employees	(544,492)	(258,482)	(1,041,787)	(1,844,761)	-
Cash paid to suppliers	(854,113)	(206,108)	(1,098,493)	(2,158,714)	-
Cash received from (paid to) other funds	(96,762)	983,415	(72,513)	814,140	(240,189)
Cash paid for claims	-	-	-	-	(4,593,824)
Net cash provided by (used in) operating activities	(636,671)	2,020,058	(1,046,180)	337,207	(217,549)
Investing Activities					
Purchase of investments	-	-	(372,190)	(372,190)	-
Proceeds from sales and maturities of investments	-	-	297,856	297,856	-
Interest received	-	2,483	42,398	44,881	-
Net cash provided by (used in) investing activities	-	2,483	(31,936)	(29,453)	-
Noncapital Financing Activities					
Transfers in (out)	777,611	(1,000,000)	631,265	408,876	-
Net cash provided by (used in) noncapital financing activities	777,611	(1,000,000)	631,265	408,876	-
Capital and Related Financing Activities					
Proceeds from retirement of assets	9,147	-	(3,000)	6,147	-
Net cash provided by (used in) capital and related financing activities	9,147	-	(3,000)	6,147	-
Net Change in Cash and Cash Equivalents	150,087	1,022,541	(449,851)	722,777	(217,549)
Cash and Cash Equivalents, Beginning of Year	396,082	137,345	1,230,543	1,763,970	222,466
Cash and Cash Equivalents, End of Year	<u>\$ 546,169</u>	<u>\$ 1,159,886</u>	<u>\$ 780,692</u>	<u>\$ 2,486,747</u>	<u>\$ 4,917</u>

Osage Nation
Statement of Cash Flows – Proprietary Funds, continued
Year Ended September 30, 2015

	Business-Type Activities				Governmental Activities
	Osage Properties	Revenue Tax	Nonmajor Proprietary Funds	Total	Internal Service Fund
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities					
Operating income (loss)	\$ (1,004,357)	\$ 1,028,257	\$ (995,545)	\$ (971,645)	\$ 333,930
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation	488,635	6,389	27,976	523,000	-
Changes in working capital components					
(Increase) decrease in accounts receivable	-	(4,474)	(3,664)	(8,138)	186,537
(Increase) decrease in inventory/prepays	(17,343)	74	(504)	(17,773)	-
Increase (decrease) in accounts payable	(10,822)	3,187	(35,899)	(43,534)	(497,827)
Increase (decrease) in due to other funds	(96,762)	983,415	(72,513)	814,140	(240,189)
Increase in other liabilities	<u>3,978</u>	<u>3,210</u>	<u>33,969</u>	<u>41,157</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ (636,671)</u>	<u>\$ 2,020,058</u>	<u>\$ (1,046,180)</u>	<u>\$ 337,207</u>	<u>\$ (217,549)</u>

Osage Nation

Combining Statement of Net Position – Discretely Presented Component Units

September 30, 2015

	Osage Casinos	Osage Home Health	Osage Nation Foundation	Total
Assets				
Cash and cash equivalents	\$ 52,035,053	\$ 8,538	\$ 463,178	\$ 52,506,769
Accounts receivable	1,144,854	203,382	-	1,348,236
Prepaid expenses and other	1,457,277	-	-	1,457,277
Inventory	1,514,200	5,259	15,639	1,535,098
Capital assets, net	<u>125,237,150</u>	<u>-</u>	<u>11,700,000</u>	<u>136,937,150</u>
Total assets	<u>181,388,534</u>	<u>217,179</u>	<u>12,178,817</u>	<u>193,784,530</u>
Liabilities				
Accounts payable	5,335,316	43,512	22,509	5,401,337
Accrued liabilities	9,082,771	387	40,887	9,124,045
Annuity payable	<u>-</u>	<u>-</u>	<u>105,928</u>	<u>105,928</u>
Total liabilities	<u>14,418,087</u>	<u>43,899</u>	<u>169,324</u>	<u>14,631,310</u>
Net Position				
Net investment in capital assets	125,237,150	-	11,700,000	136,937,150
Restricted for ranch maintenance	-	-	40,887	40,887
Unrestricted	<u>41,733,297</u>	<u>173,280</u>	<u>268,606</u>	<u>42,175,183</u>
Total net position	<u><u>\$ 166,970,447</u></u>	<u><u>\$ 173,280</u></u>	<u><u>\$ 12,009,493</u></u>	<u><u>\$ 179,153,220</u></u>

Osage Nation
Combining Statement of Revenues, Expenses and Changes in
Net Position – Discretely Presented Component Units
Year Ended September 30, 2015

	Osage Casinos	Osage Home Health	Osage Nation Foundation	Total
Operating Revenues				
Gaming revenue	\$ 178,183,003	\$ -	\$ -	\$ 178,183,003
Merchandise sales	11,121,747	-	-	11,121,747
Food and beverage	8,671,471	-	-	8,671,471
Charges for goods and services	-	560,318	-	560,318
Grants and donations	-	-	318,197	318,197
Lease income	-	-	135,000	135,000
Program income	-	-	1,858	1,858
Other revenue	5,780,410	600	-	5,781,010
Less promotional allowances	<u>(1,153,546)</u>	<u>-</u>	<u>-</u>	<u>(1,153,546)</u>
Total operating revenues	<u>202,603,085</u>	<u>560,918</u>	<u>455,055</u>	<u>203,619,058</u>
Operating Expenses				
Salaries and fringe benefits	53,329,138	302,927	15,000	53,647,065
Contractual services	-	158,402	71,207	229,609
Program expense	-	-	148,515	148,515
Travel and training	-	33,316	9,226	42,542
Repairs and maintenance	-	13,157	45,060	58,217
Marketing and advertising	8,067,951	1,136	7,160	8,076,247
Depreciation and amortization	13,775,373	2,910	-	13,778,283
Annuity expense	-	-	2,872	2,872
Gaming and related	21,174,096	-	-	21,174,096
General and administrative	12,095,152	87,081	10,554	12,192,787
Food and beverage	4,863,138	-	-	4,863,138
Compact fees	8,120,114	-	-	8,120,114
Retail	9,923,185	-	-	9,923,185
Hotel	578,792	-	-	578,792
Entertainment	379,122	-	-	379,122
Other expenses	<u>105,652</u>	<u>-</u>	<u>5,504</u>	<u>111,156</u>
Total operating expenses	<u>132,411,713</u>	<u>598,929</u>	<u>315,098</u>	<u>133,325,740</u>
Operating Income (Loss)	<u>70,191,372</u>	<u>(38,011)</u>	<u>139,957</u>	<u>70,293,318</u>
Nonoperating Revenues (Expenses)				
Interest revenue	11,721	16	-	11,737
Distributions to Osage Nation	<u>(47,322,127)</u>	<u>-</u>	<u>-</u>	<u>(47,322,127)</u>
Total nonoperating revenues (expenses)	<u>(47,310,406)</u>	<u>16</u>	<u>-</u>	<u>(47,310,390)</u>
Change in Net Position	22,880,966	(37,995)	139,957	22,982,928
Net Position, Beginning of Year	<u>144,089,481</u>	<u>211,275</u>	<u>11,869,536</u>	<u>156,170,292</u>
Net Position, End of Year	<u><u>\$ 166,970,447</u></u>	<u><u>\$ 173,280</u></u>	<u><u>\$ 12,009,493</u></u>	<u><u>\$ 179,153,220</u></u>

Osage Nation

Notes to Financial Statements

September 30, 2015

Note 1: Summary of Significant Accounting Policies

Organization

The Osage Nation (the Nation), formerly known as the Osage Tribe of Indians of Oklahoma, is composed of the descendants of persons listed on the 1906 Osage Allotment Roll. There are currently over 10,000 tribal members. The Nation is located in Osage County in North Central Oklahoma on 2,200 acres and includes the cities of Hominy, Fairfax and Pawhuska. The main Tribal office is in Pawhuska, Oklahoma.

Effective March 11, 2006, the Nation adopted a new constitution, duly ratified by a vote of the Osage people. On July 1, 2006, the Osage Nation Congress and Executive Officers assumed operational control of the Osage Nation. The governing body of the Nation is vested in three separate branches: Legislative, Executive and Judicial. The Legislative branch consists of 12 elected representatives elected at large. The Executive branch provides the executive power of the Nation and consists of a Principal Chief and an Assistant Principal Chief. The Executive branch includes a Department of the Treasury. The Judicial branch provides the judicial powers of the Nation; these powers are vested in one Supreme Court, a lower Trial Court and such inferior courts as the Osage Nation Congress may ordain and establish. The voting members of the Nation elect the Osage Nation Congress representatives every four years. The Osage Nation Congress' primary responsibility is to draft the laws for the Nation.

Pursuant to the *Osage Allotment Act* of June 28, 1906, the Osage Nation Constitution of 2006 reserves the mineral estate of the Osage Reservation to the Nation. Under this act, the Nation is required to allocate and distribute the revenue from the minerals estate to those who are entitled to receive such mineral royalty income from the mineral estate as provided by federal law. Prior to 2006, the Osage Tribal Council was responsible for the protection and preservation of the mineral estate and ensuring the rights of members of the Nation to income derived from the mineral estate. In 2006, a new constitution was approved, which separated the mineral estate from the tribal government and created a minerals management agency, the Osage Minerals Council, to protect and preserve the mineral estate and ensure the rights of members of the Nation. The Osage Minerals Council consists of Nation members who are entitled to receive mineral royalty income from the mineral estate as provided by federal law. The Osage Minerals Council is recognized by the Nation's government as an independent agency within the Nation established for the sole purpose of continuing the previous duties of the Osage Tribal Council to administer and develop the mineral estate in accordance with the *Osage Allotment Act* of June 28, 1906. Pursuant to the Osage Nation Constitution of 2006, the Osage Minerals Council is elected to serve a four-year term by Nation members entitled to receive mineral royalty income. The Osage Minerals Council has no legislative authority for the Nation's government. The administrative costs of the Osage Mineral Council are included in the General Fund in the accompanying financial statements. Funding for these costs comes primarily through an annual allocation from the Bureau of Indian Affairs, which is reported in program income in the General Fund. The distribution of mineral royalty income to entitled mineral royalty income owners is administered by the Bureau of Indian Affairs; these distributions are not received by the Nation and are not reflected in the accompanying financial statements.

Osage Nation

Notes to Financial Statements

September 30, 2015

The accompanying basic financial statements reflect the financial position and results of operations of the activities over which the Nation exercises fiscal and administrative control. These financial statements do not include the financial position and the results of operations of individual members of the Nation or various nontribal entities that are independent of the Osage Nation Congress and over which the Nation does not exercise significant influence or operating control.

Reporting Entity

All entities that are not legally separate are part of the Nation's primary government for financial reporting purposes. The primary government includes:

- All governmental offices and departments of the Nation
- The Gray Horse, Pawhuska and Hominy Indian villages
- Osage Casinos, Osage Home Health and the Osage Nation Foundation, which are presented as discrete component units of the Nation

In evaluating how to define the Nation, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board (GASB). The basic, but not the only, criterion for including a potential component unit with the reporting entity is if elected officials of the primary government are financially accountable for the entity. The primary government is financially accountable if it appoints a voting majority of the entity's governing body and is able to impose its will on that entity or there is a potential of financial benefit or burden to the primary government.

For each entity determined to be a component unit of the Nation, an additional determination is made regarding the method of combining component unit data of the primary government. The two methods of combination are "discrete presentation" and "blending." The discrete presentation has the component unit data presented in a separate column on the government-wide financial statements. The blended component unit merges or aggregates the entity with the primary government.

The Nation has three discretely presented component units: Osage Casinos, Osage Home Health and the Osage Nation Foundation. Each of these legal entities is considered a component unit because the Osage Nation government is financially accountable for each of these entities.

Osage Casinos – Osage Casinos operates casinos in Tulsa, Sand Springs, Hominy, Pawhuska, Bartlesville, Ponca City and Skiatook, Oklahoma. Osage Casinos also maintains a central office for supporting the operations. The casinos located in Ponca City and Skiatook also began operating hotels and convenience stores in December 2013.

Osage Home Health – Osage Home Health operates the home health services for the Nation.

Osage Nation Foundation – The Osage Nation Foundation operates a foundation, the purpose of which is to help preserve and protect the Osage language and culture for the Osage people.

The accompanying financial statements include Osage Casinos, Osage Home Health and the Osage Nation Foundation, component units which have year-ends of September 30.

Osage Nation

Notes to Financial Statements

September 30, 2015

Basis of Presentation

Financial Statements

The basic financial statements of the Nation include the government-wide and component unit financial statements. The government-wide financial statements focus on the Nation as a whole, while additional and detailed information about the Nation's major governmental and business-type activities is reported in the fund financial statements. Component units are presented in total in the government-wide financial statements and in more detail in the component unit combining statements.

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities display information about the Nation's primary government. These statements include the financial activities of the overall Nation. Eliminations have been made to minimize the double counting of internal activities.

Governmental activities are financed primarily through sales and excise taxes, federal grants and distributions received from the Osage Casinos. During the year ended September 30, 2015, distributions from the Osage Casinos amounted to \$47,322,127.

The government-wide statement of activities reflects the cost of programs and functions (community services, environmental management, etc.) reduced by directly associated revenues (program income, operating and capital grants) to arrive at the net revenue or expense for each program and function. Net program revenue or expense for governmental activities is then adjusted for general revenues and transfers to determine the change in net position for the year. Indirect expenses, such as support services and administration, incurred in the general government and other functions/activities are not allocated to programs/functions that they may benefit. When both restricted and unrestricted resources are available for use, it is the Nation's policy to use restricted resources first, then unrestricted resources as they are needed.

Fund Financial Statements

The fund financial statements provide information about the Nation's funds. Separate statements for each fund category, governmental and proprietary, are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Governmental Fund Types

- **General Fund** – The Nation maintains several departmental general funds. At times, other special accounts are maintained for specific purposes. All such funds account for general financial resources and are combined for reporting purposes because of the similarity of the funds.

Osage Nation

Notes to Financial Statements

September 30, 2015

- **Special Revenue Funds** – These funds are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory requirements or administrative action. These accounts cover a broad range of federal grant programs, as well as state, county and foundation programs.

The Nation reports the following major governmental funds:

- **General Fund** – The General Fund is the Nation’s primary operating fund. It accounts for all governmental financial resources, except those accounted for in another fund.
- **Special Revenue Funds**
 - **Department of Housing and Urban Development** – This fund accounts for the resources received by the Nation to provide housing programs to tribal members.
 - **Department of Health and Human Services** – This fund accounts for the resources received by the Nation to provide health and welfare programs to tribal members.
 - **Department of Interior** – This fund accounts for the resources received by the Nation to provide social service and general assistance programs to tribal members.
 - **Department of Transportation** – This fund accounts for the resources received by the Nation to provide construction of roads and other transportation matters to tribal members.
 - **Department of Agriculture** – This fund accounts for the resources received by the Nation to provide nutrition and food to tribal members.

Proprietary Fund Types

- **Internal Service Fund** – This fund is used to account for health insurance for employees provided to other departments and entities of the Nation on a cost reimbursement basis.

The Nation reports the following major enterprise funds:

- **Osage Properties** – Osage Properties provides property management and maintenance services for certain land and properties owned by the Nation. Osage Properties charges a space cost to Osage Nation programs to recover a portion of the costs associated with property management.
- **Revenue Tax** – The Revenue Tax fund accounts for tax receipts for various taxes, including sales, tobacco and motor fuel taxes. The fund also reports motor vehicle registrations and vendor licensing fees. These taxes are levied and collected by the Osage Revenue Tax Commission. Effective November 1, 2013, the Nation entered into a Tobacco Tax Compact with the state of Oklahoma. Tobacco tax revenues received under this compact are reported as revenue in the General Fund rather than the Revenue Tax Fund. The operating expenses of the Osage Revenue Tax Commission are also reported in the fund.

Osage Nation

Notes to Financial Statements

September 30, 2015

The Nation reports the following component units:

- **Osage Casinos** – Osage Casinos operates casinos in Tulsa, Sand Springs, Hominy, Pawhuska, Bartlesville, Ponca City and Skiatook, Oklahoma. Osage Casinos maintains a central office for supporting the operations. The casinos in Ponca City and Skiatook also began operating hotels and convenience stores in December 2013.
- **Osage Home Health** – Osage Home Health operates the home health services for the Nation.
- **Osage Nation Foundation** – The Osage Nation Foundation operates a foundation for the Nation, which was created for the purpose of preserving and protecting the Osage language and culture for the Osage people.

Basis of Accounting and Measurement Focus

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method, revenue is recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place. Nonexchange transactions in which the Nation gives (or receives) value without directly receiving (or giving) equal value in exchange include grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which eligibility requirements have been satisfied.

Proprietary fund operating revenue results from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. Operating expenses of proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

Governmental funds are reported using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenue is recognized when measurable and available. The Nation considers all revenue reported in the governmental funds to be available if the revenue is collected within 90 days after year-end. Expenditures are recorded when the related fund liability is incurred. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds from long-term debt and acquisitions under capital leases are reported as other financing sources and uses.

Discretely presented component units are reported using the accrual basis of accounting. Under this method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which the liability is incurred.

The financial statements of the Nation conform with U.S. generally accepted accounting principles (GAAP) applicable to government units. GASB is the standard-setting body for governmental accounting and financial reporting. GASB statements and interpretations constitute GAAP for governments, including Indian Tribes.

Osage Nation

Notes to Financial Statements

September 30, 2015

Accounting Policies

The Nation's significant accounting policies related to the basic financial statement categories are summarized below:

Cash and Cash Equivalents

The Nation considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2015, cash equivalents consisted primarily of short-term certificates of deposit.

Accounts Receivable

The Nation records normal business receivables as well as loans to tribal members and travel advances. No allowance for doubtful accounts has been established as the Nation anticipates collecting all material accounts.

Due from Other Governments

Due from other governments represents amounts that have been expended by the programs but have not been reimbursed by the respective funding agency. Total amounts due from other governments as of September 30, 2015, amounted to \$968,534.

Investments

Investments are generally recorded at fair value. Fair value is determined by the reported market value of securities and mutual funds trading on a national exchange. Investments in land are carried at cost and periodically evaluated for other-than-temporary decline in value.

Investment in Osage Nation Businesses

The Nation records its equity in its investments in Osage Nation businesses using the equity method of accounting. The Nation records its initial investment at cost and subsequently adjusts its original investment for its share of the income or loss of each business and cash distributions, if any, received from the business. Investments are evaluated periodically to determine if the carrying value of the investment exceeds fair value. When management believes an impairment has been incurred, the investment is adjusted to fair value. Management did not record an impairment in 2015.

Equity Interests in Component Units

The Nation records its equity in its interest in component units owned by the Nation using the equity method of accounting. The Nation recorded its initial investment on the equity basis of accounting at September 30, 2012, the date on which it adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. Subsequently, the Nation adjusts its initially recorded investment for its share of the income or loss of the component units and capital contributions or cash distributions, if any, paid to or received from the component units. This investment in component units is evaluated periodically to determine if the carrying value of the equity interest exceeds fair value. When management believes an impairment has been incurred, the equity interest in component units is adjusted to fair value. Management did not record an impairment in 2015.

Osage Nation

Notes to Financial Statements

September 30, 2015

Inventory

- **Business-Type Activities and Proprietary Funds** – Inventories are valued at average cost. Cost is determined using the first-in, first-out (FIFO) average cost method.
- **Discretely Presented Component Units** – Osage Casinos' inventories are valued at the lower of cost or market and consist primarily of tobacco, food, beverages and fuel. Cost is determined by the FIFO method.

Capital Assets and Depreciation

Capital assets are recorded at cost where historical records are available and at estimated cost where no historical records exist. Contributed assets, including those from the federal government, are recorded at estimated fair value on the date received. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred. Reservation lands and related resources (such as timber stands and other natural resources) are not capitalized because there is not a historical cost associated with these assets.

Capitalization thresholds (the dollar values above which asset acquisitions are added to the capital asset accounts) and estimated useful lives of capital assets are as follows:

Governmental Activities and Business-Type Activities

Asset Category	Capitalization Threshold	Years
Buildings and improvements	\$ 10,000	25
Machinery and equipment	\$ 10,000	10
Vehicles and mobile equipment	\$ 10,000	5

Discretely Presented Component Units

Asset Category	Capitalization Threshold	Years
Buildings and leasehold improvements	\$ 5,000	20–30
Land improvements	\$ 5,000	10–15
Furniture and fixtures	\$ 5,000	5–7
Gaming and other equipment	\$ 5,000	3–5
Vehicles and mobile equipment	\$ 5,000	5

Osage Nation

Notes to Financial Statements

September 30, 2015

The Nation accounts for the impairment of capital assets using the guidance provided in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. GASB Statement No. 42 is a two-step process of identifying potential impairments and testing for impairment. Asset impairment, as defined by GASB Statement No. 42, is a significant, unexpected decline in the service utility of a capital asset. Governments generally hold capital assets because of the services the capital assets provide; consequently, capital asset impairments affect the service utility of the assets. The events or changes in circumstances that lead to impairments are not considered normal and ordinary. At the time the capital asset was acquired, the event or change in circumstances would not have been expected to occur during the useful life of the capital asset. The Nation had no impaired assets at September 30, 2015.

Internal Balances

During the course of operations, transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as due from other funds or due to other funds on the accompanying fund financial statements and are eliminated in the accompanying government-wide financial statements.

Interfund transactions are accounted for as revenues or expenditures. Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed.

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 revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

Osage Nation

Notes to Financial Statements

September 30, 2015

Compensated Absences

Employees accrue vested paid time off (PTO) at a variable rate based on years of service. It is the Nation's policy to liquidate unpaid PTO leave at September 30 from future sources rather than currently available expendable resources. Accordingly, governmental funds recognize annual leave when it is paid. Compensated absence liability at September 30, 2015, totaled \$990,855 for governmental activities. This amount is recorded in the accompanying government-wide statement of net position and is a reconciling item between the government-wide statement of net position and the governmental funds balance sheet. Employees accrue PTO based on the following table:

Benefit Type	Tenure/ Years	Hours per Pay Period
Personal time off (PTO)	0–3	6
Personal time off (PTO)	3–10	8
Personal time off (PTO)	10 or more	10

Employees can accrue a maximum of 260 hours of personal time off. If an employee reaches the maximum hours, leave will cease to accrue until the balance falls below 260.

Income Taxes

The Nation, as a federally recognized sovereign government, is exempt from federal and state income taxes. As such, no income taxes have been provided for in the accompanying financial statements.

Indirect Costs

Indirect costs represent costs of administration and operation, including accounting costs, which cannot be readily allocated to individual programs. These costs are paid from the indirect cost pool in the General Fund and allocated to applicable programs based on a negotiated indirect cost agreement. A rate of 26.65% was charged to all contributing programs based on total expenditures less items classified as pass-through expenditures. This rate was negotiated with the National Business Center, U.S. Department of Interior, for fiscal year 2015.

Net Position

In the government-wide financial statements, net position is classified in the following categories:

- **Net Investment in Capital Assets** – This amount consists of capital assets, net of accumulated depreciation and reduced by outstanding debt or other borrowings attributed to the acquisition, construction or improvement of the assets.
- **Restricted** – This amount is restricted by external creditors, grantors, contributors, law or regulations of other governments, enabling legislation or constitutional provisions.

Osage Nation

Notes to Financial Statements

September 30, 2015

- **Unrestricted** – This amount is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Unearned Grant Revenue

Unearned grant revenue represents amounts that have been received by the programs from the respective funding agencies that have not yet been expended for the intended purposes.

Revenue Recognition

The Nation considers revenue to be susceptible to accrual in the governmental funds as it becomes measurable and available as defined under the modified accrual basis of accounting. The Nation generally defines the availability period for revenue recognition as 90 days.

Operating and Nonoperating Revenues and Expenses

In the proprietary funds and component units, operating revenues are funds that result from providing or producing goods and services. Nonoperating revenues are funds primarily provided by investing activities, such as interest income. Operating expenses are those expenses related to the production of revenue. Nonoperating expenses are those expenses not directly related to the production of revenue and include items, such as interest expense and losses on disposal of assets.

Fund Equity

Governmental fund equity is classified as fund balance. Fund balances for governmental funds are reported in classifications that comprise a hierarchy based primarily upon the extent to which the Nation is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The categories and their purposes are:

- **Nonspendable** – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints, including inventories, prepaid assets and the corpus of permanent funds.
- **Restricted** – Fund balances that are restricted for specific purposes stipulated by external parties, constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- **Committed** – Fund balances that can only be used for the specific purposes determined by a formal action of the Nation's highest level of decision-making authority, the Osage Nation Congress. Commitments may be changed or lifted only by the Nation taking the same formal action that imposed the constraint originally (for example, a legislative act).

Osage Nation

Notes to Financial Statements

September 30, 2015

- **Assigned** – Fund balances that are intended to be used by the Nation for specific purposes that are neither restricted nor committed. Intent is expressed by (a) the Treasurer or (b) an appointed body or official to whom the Nation has delegated the authority to assign, modify or rescind amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental, special revenue, capital project, debt service or permanent funds (except negative amounts) that are not classified as nonspendable, restricted or committed. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment within the General Fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the Nation itself.
- **Unassigned** – Fund balances of the General Fund that are not constrained for any particular purposes. It is also the residual classification for all negative fund balances.

In circumstances where an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted using a specific combination of classifications as instructed by the Osage Nation Congress or the Treasurer or, in the absence of specific instruction, in the order of restricted, committed, assigned and unassigned.

Note 2: Deposits and Investments

Deposits

Custodial credit risk is the risk that in the event of a bank failure the Nation's deposits may not be returned to it. The Nation's statutes require that funds be deposited in a financial institution insured either by the Federal Deposit Insurance Corporation or Federal Savings and Loan Insurance Corporation. All balances in excess of insurance limits require pledged collateral from the financial institution. All deposits of the primary government were either insured or collateralized and held by various safe-keeping agents in the Nation's name and not exposed to custodial credit risk. All of the deposits of the Osage Casinos were also covered by federal depository insurance or collateralized.

Investments

The Nation adopted an investment policy to govern the administration of the Nation's investment portfolio assets. The Nation's portfolio is managed by an external advisor, Native American Fund Advisors (NAFA). NAFA has full responsibility for investing funds placed with the organization within the parameters of the investment policy approved by the Nation. The criteria for investing must adhere to the order of priority stated in the investment policy: 1) Safety, 2) Liquidity, 3) Yield and 4) Capital growth.

Interest Rate Risk – Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The Nation has a diversified portfolio to mitigate this risk.

Osage Nation

Notes to Financial Statements

September 30, 2015

Primary Government – The Nation’s investment policy limits the maximum effective maturity of any single security to 30 years and provides that the market weighted-average effective maturity of any managed portfolio should be within +/-25% of the market value weighted-average effective duration of the manager’s appropriate index. Securities held in short-term working capital portfolios are limited securities administered under short-term active duration management. As of September 30, 2015, the maturities of the Nation’s investments subject to interest rate risk were as follows:

Investment Type	Fair Value	Average Maturity (Years)
Repurchase agreements	\$ 1,039,172	-
Money market	534,350	0.11
Convertible bonds	1,452,921	6.14
Corporate bonds	11,823,856	3.84
Government-sponsored entities	11,296,499	2.39
U.S. treasuries	6,372,615	2.79
Total fair value	<u>\$ 32,519,413</u>	
Portfolio weighted-average maturity		3.05

Credit Risk – Credit risk is the risk that an issuer or other counterparty will not fulfill its obligation to the Nation.

Primary Government – The Nation’s investment policies require that cash and cash equivalents shall consist of money market instruments having a credit quality of “AA” or higher from a national rating agency. The Nation’s bond credit concentration is expressed as a percentage of the total market value of the investment portfolio. Equity securities must have a minimum market capitalization of equity of \$500,000,000 and no one company shall represent more than 5.0% of the investment portfolio based on cost. Bonds and convertible bonds are subject to credit rating limits from a nationally recognized credit agency. The credit concentration as a percentage of the total market value of the investment portfolio is limited by the policy as follows:

S & P/Moody’s Rating	Must Not Exceed	But Not Less than
Government	100%	25%
AAA/Aaa	100%	0%
AA/Aa	70%	0%
A/A	50%	0%
BBB/Baa	40%	0%
Lower than investment grade	10%	0%

Osage Nation

Notes to Financial Statements

September 30, 2015

The credit ratings of the Nation's investments as of September 30, 2015, were as follows:

	Total	AA	A	BBB	BB	B	CCC	Unrated
Investment type								
Primary government								
Repurchase agreements	\$ 1,039,172	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,039,172
Money market funds	534,350	-	-	-	-	-	-	534,350
Convertible bonds	1,452,921	-	-	-	-	301,638	128,276	1,023,007
Corporate bonds	11,823,856	1,460,662	2,286,783	6,561,951	767,716	-	-	746,744
Government-sponsored entities	11,296,499	11,296,499	-	-	-	-	-	-
U.S. treasuries	6,372,615	6,372,615	-	-	-	-	-	-
	<u>32,519,413</u>	<u>\$ 19,129,776</u>	<u>\$ 2,286,783</u>	<u>\$ 6,561,951</u>	<u>\$ 767,716</u>	<u>\$ 301,638</u>	<u>\$ 128,276</u>	<u>\$ 3,343,273</u>
Equities	4,145,414							
Land	<u>500,026</u>							
Total investments	<u>\$ 37,164,853</u>							

Under the technical requirements of GASB Statement No. 40, many of the credit ratings presented in the table above include the credit rating of the funds in which the Nation has invested and not the credit ratings of the individual investments within the funds. As a result, many of the investments above are presented as unrated, as the funds themselves are not rated. Management of the Nation believes that the individual investments within the unrated funds are generally compliant with the credit quality guidelines set forth in the Nation's investment policies.

The policy includes the following security type concentration limitations:

Security Type	Must Not Exceed	But Not Less than
U.S. guaranteed securities	100%	25%
Government agencies	75%	0%
Corporate and convertible bonds	50%	0%
Common and preferred stocks	30%	0%

Custodial Risk – Investments – All investment transactions for the Nation are conducted on a deliver-versus-payment basis. Securities are held by a third-party custodian designated by the Treasurer and evidenced by trade confirmation receipts. At September 30, 2015, the balance of securities held by the third-party custodian was approximately \$36,000,000.

Osage Nation

Notes to Financial Statements

September 30, 2015

Summary of Carrying Values

The carrying values of investments shown in the preceding tables and deposits are included in the accompanying government-wide statement of net position as follows:

	<u>Primary Government</u>
Included in the following categories for deposit and investment disclosure purposes	
Deposits and cash on hand	\$ 33,600,027
Investments	<u>37,164,853</u>
	<u><u>\$ 70,764,880</u></u>
Included in the following statement of net position captions	
Cash and cash equivalents	\$ 18,117,555
Investments	47,517,665
Restricted investment	<u>5,129,660</u>
	<u><u>\$ 70,764,880</u></u>

A reconciliation of deposits and cash on hand for the primary government presented above to the cash and cash equivalents as presented in the accompanying government-wide statement of net position follows:

<u>Cash Reconciliation</u>	
Deposits and cash on hand – disclosure purposes	\$ 33,600,027
Repurchase agreements	1,039,172
Less certificates of deposit – maturity greater than 90 days	<u>(16,521,644)</u>
Cash and cash equivalents – statement of net position	<u><u>\$ 18,117,555</u></u>

Osage Nation

Notes to Financial Statements

September 30, 2015

Note 3: Interfund Activity

Interfund balances are summarized as follows:

	Payable Fund							
	General Fund	Department of Interior	Department of Transportation	Department of Agriculture	Other Governmental Funds	Osage Properties	Revenue Tax	Nonmajor Proprietary Funds
Receivable Fund								
General Fund	\$ -	\$ 54,834	\$ 22,069	\$ 31,070	\$ 25,257	\$ 4,487	\$ 1,008,390	\$ 10,808
Internal Service Fund	240,189	-	-	-	-	-	-	-
Department of Housing and Urban Development	78,724	-	-	-	-	-	-	-
Department of Health and Human Services	39,710	-	-	-	-	-	-	-
	<u>\$ 358,623</u>	<u>\$ 54,834</u>	<u>\$ 22,069</u>	<u>\$ 31,070</u>	<u>\$ 25,257</u>	<u>\$ 4,487</u>	<u>\$ 1,008,390</u>	<u>\$ 10,808</u>
								<u>\$ 1,515,538</u>

All amounts will be repaid within the year.

Transfers are summarized as follows:

	Transfers In							
	General Fund	Department of Housing and Urban Development	Department of Health and Human Services	Department of Interior	Department of Agriculture	Other Governmental Funds	Osage Properties	Nonmajor Proprietary Funds
Transfers Out								
General Fund	\$ -	\$ 9,489	\$ 565,510	\$ 28,086	\$ 75,242	\$ 177,999	\$ 777,611	\$ 631,265
Revenue Tax	1,000,000	-	-	-	-	-	-	-
	<u>\$ 1,000,000</u>	<u>\$ 9,489</u>	<u>\$ 565,510</u>	<u>\$ 28,086</u>	<u>\$ 75,242</u>	<u>\$ 177,999</u>	<u>\$ 777,611</u>	<u>\$ 631,265</u>
								<u>\$ 3,265,202</u>

The principal purposes of the transfers are to fund programs and to manage cash flow. The General Fund transfers funds as determined by Osage Nation Congress' legislative act to meet cash match requirements or to supplement funding for programs. The Osage Revenue Tax Commission transfers residual income to the General Fund annually. The Osage Revenue Tax Commission residual for fiscal year 2015 that was transferred to the General Fund was \$1,000,000.

Osage Nation

Notes to Financial Statements

September 30, 2015

Note 4: Investment in Osage Nation Businesses and Equity Interests in Component Units

Under GASB Statement No. 61, the Nation is required to present its equity interest in various Osage Nation activities as assets of the primary government even if they are presented as discretely presented component units. In evaluating its equity position in these activities, the Nation concluded that the primary purpose of its ownership of some of these entities is to obtain income or profit and, therefore, they determined that the Nation should present its equity interest in these businesses as investments of the Nation rather than discretely presented component units. The entities that the Nation concluded should be treated as investments rather than component units were Osage, LLC and Osage Nation Energy Services, LLC (ONES, LLC). The Nation owns 100% of these businesses and accounts for these investments using the equity method. Osage, LLC is a holding company that owns other businesses established or purchased by Osage, LLC. ONES, LLC is a business created by the Nation in 2013 as an oilfield service business providing products and services to the local and regional pipeline and oilfield industry. These entities were created for the purpose of earning a profit. The carrying value of these investments in Osage Nation businesses was \$3,210,108 at September 30, 2015. Audited financial statements of Osage, LLC are available upon request.

The Nation determined that the other component units in which the Nation also has an equity interest should continue to be reported as discretely presented component units, but under GASB Statement No. 61, the Nation's equity ownership position in these component units (Osage Casinos and Osage Home Health) should also be reported as assets of the primary government. These assets are assets of the governmental activities within the primary government because governmental funds hold the equity interests. As of September 30, 2015, the Nation also has reflected its equity investment in Osage Casinos and Osage Home Health as governmental activities assets. The carrying value of the equity interests in component units as an asset of the governmental activities was \$167,143,727 at September 30, 2015. During the year ended September 30, 2015, the Nation recognized an increase in equity in these owned component units of \$22,842,971.

The Nation has no equity interest in the Osage Nation Foundation. Therefore, it is not presented as an asset of the Osage Nation primary government.

Condensed financial information for Osage, LLC and ONES, LLC is presented on the following page. ONES, LLC is presented for the year ended September 30, 2015, and Osage, LLC is presented for the year ended December 31, 2015.

Osage Nation
Notes to Financial Statements
September 30, 2015

	Osage, LLC	ONES, LLC	Total
Assets			
Current and other assets	\$ 3,174,191	\$ 274,809	\$ 3,449,000
Capital assets, net	<u>31,782</u>	<u>124,194</u>	<u>155,976</u>
Total assets	<u>3,205,973</u>	<u>399,003</u>	<u>3,604,976</u>
Liabilities			
Accounts payable and accrued liabilities	324,974	450	325,424
Other liabilities	57,365	-	57,365
Unearned revenue	<u>-</u>	<u>12,079</u>	<u>12,079</u>
Total liabilities	<u>382,339</u>	<u>12,529</u>	<u>394,868</u>
Net Position			
Net investment in capital assets	31,782	124,194	155,976
Restricted	1,500,000	-	1,500,000
Unrestricted	<u>1,291,852</u>	<u>262,280</u>	<u>1,554,132</u>
Total net position	<u>\$ 2,823,634</u>	<u>\$ 386,474</u>	<u>\$ 3,210,108</u>
	Osage, LLC	ONES, LLC	Total
Operating Revenues	\$ 981,663	\$ 6,946	\$ 988,609
Operating Expenses	<u>1,781,582</u>	<u>19,788</u>	<u>1,801,370</u>
Operating Income	(799,919)	(12,842)	(812,761)
Nonoperating Expenses	<u>(6,913)</u>	<u>-</u>	<u>(6,913)</u>
Loss Before Contributions from the Nation	(806,832)	(12,842)	(819,674)
Contributions from the Nation	<u>-</u>	<u>222,304</u>	<u>222,304</u>
Change in Net Position	(806,832)	209,462	(597,370)
Net Position, Beginning of Year	<u>3,630,466</u>	<u>177,012</u>	<u>3,807,478</u>
Net Position, End of Year	<u>\$ 2,823,634</u>	<u>\$ 386,474</u>	<u>\$ 3,210,108</u>

The decrease in equity in Osage Nation businesses of \$597,370 is presented in the accompanying government-wide statement of activities.

Osage Nation
Notes to Financial Statements
September 30, 2015

Note 5: Capital Assets

Capital asset activity for the year ended September 30, 2015, is summarized as follows:

Governmental Activities

	Beginning Balance (as Restated)	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated					
Land	\$ 8,453,684	\$ 98,338	\$ -	\$ (4,538,836)	\$ 4,013,186
Construction in progress	<u>12,671,985</u>	<u>14,709,894</u>	<u>-</u>	<u>(9,391,144)</u>	<u>17,990,735</u>
Total capital assets not being depreciated	<u>21,125,669</u>	<u>14,808,232</u>	<u>-</u>	<u>(13,929,980)</u>	<u>22,003,921</u>
Capital assets being depreciated					
Buildings	12,784,714	3,612,685	(134,278)	13,746,284	30,009,405
Equipment	1,979,535	715,946	(8,000)	183,696	2,871,177
Vehicles	<u>2,681,983</u>	<u>74,443</u>	<u>(280,606)</u>	<u>-</u>	<u>2,475,820</u>
Total capital assets being depreciated	<u>17,446,232</u>	<u>4,403,074</u>	<u>(422,884)</u>	<u>13,929,980</u>	<u>35,356,402</u>
Less accumulated depreciation					
Buildings	(4,495,345)	(1,533,743)	114,583	-	(5,914,505)
Equipment	(849,723)	(282,642)	8,000	-	(1,124,365)
Vehicles	<u>(1,977,950)</u>	<u>(239,070)</u>	<u>280,607</u>	<u>-</u>	<u>(1,936,413)</u>
Total accumulated depreciation	<u>(7,323,018)</u>	<u>(2,055,455)</u>	<u>403,190</u>	<u>-</u>	<u>(8,975,283)</u>
Capital assets, net	<u>\$ 31,248,883</u>	<u>\$ 17,155,851</u>	<u>\$ (19,694)</u>	<u>\$ -</u>	<u>\$ 48,385,040</u>

Depreciation expense of \$2,055,455 is unallocated on the accompanying government-wide statement of activities.

Osage Nation
Notes to Financial Statements
September 30, 2015

Business-Type Activities

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated					
Land	\$ 2,827,020	\$ -	\$ -	\$ -	\$ 2,827,020
Total capital assets not being depreciated	2,827,020	-	-	-	2,827,020
Capital assets being depreciated					
Buildings	14,228,244	-	(126,615)	-	14,101,629
Equipment	696,322	-	-	-	696,322
Vehicles	190,273	-	(42,788)	-	147,485
Total capital assets being depreciated	15,114,839	-	(169,403)	-	14,945,436
Less accumulated depreciation					
Buildings	(7,575,186)	(431,459)	117,408	-	(7,889,237)
Equipment	(269,957)	(84,199)	-	-	(354,156)
Vehicles	(185,991)	(4,282)	42,788	-	(147,485)
Total accumulated depreciation	(8,031,134)	(519,940)	160,196	-	(8,390,878)
Capital assets, net	\$ 9,910,725	\$ (519,940)	\$ (9,207)	\$ -	\$ 9,381,578

Osage Nation
Notes to Financial Statements
September 30, 2015

Discretely Presented Component Units

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets not being depreciated					
Land	\$ 16,517,613	\$ -	\$ -	\$ -	\$ 16,517,613
Construction in progress	<u>3,877,837</u>	<u>4,041,655</u>	<u>-</u>	<u>(1,489,570)</u>	<u>6,429,922</u>
Total capital assets not being depreciated	<u>20,395,450</u>	<u>4,041,655</u>	<u>-</u>	<u>(1,489,570)</u>	<u>22,947,535</u>
Capital assets being depreciated					
Land improvements	9,049,583	-	-	-	9,049,583
Buildings and leasehold improvements	109,092,587	864,839	(197,347)	24,468	109,784,547
Equipment and fixtures	80,368,657	4,529,593	(1,710,721)	1,465,102	84,652,631
Vehicles	<u>1,703,812</u>	<u>191,817</u>	<u>(68,095)</u>	<u>-</u>	<u>1,827,534</u>
Total capital assets being depreciated	<u>200,214,639</u>	<u>5,586,249</u>	<u>(1,976,163)</u>	<u>1,489,570</u>	<u>205,314,295</u>
Less accumulated depreciation					
Land improvements	(3,298,247)	(533,768)	-	-	(3,832,015)
Buildings and leasehold improvements	(17,507,432)	(4,561,214)	159,918	-	(21,908,728)
Equipment and fixtures	(57,415,167)	(8,459,146)	1,514,067	-	(64,360,246)
Vehicles	<u>(1,067,628)</u>	<u>(224,155)</u>	<u>68,092</u>	<u>-</u>	<u>(1,223,691)</u>
Total accumulated depreciation	<u>(79,288,474)</u>	<u>(13,778,283)</u>	<u>1,742,077</u>	<u>-</u>	<u>(91,324,680)</u>
Capital assets, net	<u>\$ 141,321,615</u>	<u>\$ (4,150,379)</u>	<u>\$ (234,086)</u>	<u>\$ -</u>	<u>\$ 136,937,150</u>

During the year ended September 30, 2015, Osage Casinos spent \$4,556,093 for project costs related to architecture fees related to a potential expansion/build project at the Tulsa location. These costs are included in construction in progress.

Osage Nation
Notes to Financial Statements
September 30, 2015

Note 6: Compensated Absences

Changes in compensated absences for the year ended September 30, 2015, were as follows:

	Beginning Balance	Additions	Deductions	Ending Balance
Governmental Activities				
Compensated absences	\$ 490,826	\$ 990,855	\$ (490,826)	\$ 990,855
Business-Type Activities				
Compensated absences	\$ 35,687	\$ 76,845	\$ (35,687)	\$ 76,845

Note 7: Long-Term Debt

In 2014, the Nation entered into borrowing agreements with Bank of Oklahoma totaling \$10,000,000 to partially fund the Osage Nation campus construction projects. For purposes of Section 265(b)(3)(B) of the Internal Revenue Code, the notes were issued as qualified tax-exemption obligations. The notes are \$5,000,000 each with variable interest rates and 10-year fixed principal payments. Note #1 is secured by a \$5,000,000 certificate of deposit and Note #2 is secured by the full faith and credit of the Nation. The notes have variable interest rates based on the One-Month London InterBank Offered Rate (LIBOR). Note #1's interest rate is One-Month LIBOR plus 1.05% and Note #2's interest rate is One-Month LIBOR plus 1.85%. At September 30, 2015, the interest rate was 1.245855% on Note #1 and 2.04855% on Note #2. Principal payments during fiscal year 2015 were \$3,499,709 and interest payments were \$122,707.

Annual debt service requirements to maturity for notes payable are as follows:

	Principal	Interest	Total
2016	\$ 1,000,000	\$ 85,157	\$ 1,085,157
2017	1,000,000	68,727	1,068,727
2018	1,000,000	52,297	1,052,297
2019	875,000	36,080	911,080
2020	500,000	26,673	526,673
2021–2024	1,875,291	44,670	1,919,961
Total	\$ 6,250,291	\$ 313,604	\$ 6,563,895

Osage Nation

Notes to Financial Statements

September 30, 2015

In November 2012, Osage Casinos entered into a loan agreement with a financial institution for two loan structures for construction projects and an operating line of credit. The construction loan agreement consisted of funding for new facilities in the amount of approximately \$27,100,000. The term of the revolving loan is five years. The line of credit agreement, in the amount of \$10,000,000, is to be utilized for operating and capital cash flow needs. The term on the line of credit is five years. Advances under the two loan structures bear interest monthly at the base rate or LIBOR plus a margin based on a leverage ratio as defined by the agreement. The base rate is defined as the greater of (a) the Federal Funds Rate plus ½ of 1% or (b) the Prime Rate. An unused commitment fee is charged as defined by the agreement. The loan structures are collateralized by substantially all the assets of Osage Casinos. Under the terms of the loan structures, Osage Casinos is required to comply with certain financial covenants, including, but not limited to, a fixed charge coverage ratio, minimum EBITDA levels and leverage ratios.

Effective October 8, 2014 and November 10, 2014, the line of credit and the construction loan agreement, respectively, were closed.

Note 8: Self-Insurance

The Nation is self-insured up to certain limits for employee group health claims. The Nation has purchased stop-loss insurance, which will reimburse the Nation for individual claims in excess of \$200,000 annually and for aggregate claims with a minimum attachment point of \$11,365,361. The insurance contract runs November 1 through October 31 of the next fiscal year. Operations are charged with the cost of claims reported less stop-loss reimbursement received.

Osage, LLC and Osage Home Health participated in an employee group health plan administered through the Nation through May 2015. As of June 2015, each entity is responsible for maintaining separate insurance coverages for their respective employees.

The Nation's reported employee health claims liability of \$543,233 at September 30, 2015, has been recorded in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. This liability includes all open claims for the health plan.

Osage Nation

Notes to Financial Statements

September 30, 2015

The claims liability has been estimated based on open claims at September 30, 2015. The Nation believes that this method of estimating the liability is sufficient to determine the amount of open claims and to provide for claims that have been incurred but not reported (IBNR). Changes in the reported liability follow:

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2014	\$ 745,357	\$ 4,294,551	\$ 3,889,110	\$ 1,150,798
2015	\$ 1,150,798	\$ 3,986,259	\$ 4,593,824	\$ 543,233

Note 9: Osage Nation Members' Health Benefits

The Nation provides for an annual health benefit for all members. The health benefit provides a maximum of \$500 per year for eligible health care costs for members under age 65 and up to \$1,000 per year for members over age 65. In 2015, the health benefit plan was amended to offer members over 65 an option of either the \$1,000 maximum benefit or a supplemental Medicare policy. The health benefit plan operates on a calendar year and is administered by a third-party administrator. For fiscal year 2015, the expenditures for member benefits were \$5,746,744. The Nation expenses the benefit payments as they are paid to the third-party administrator. There is a nominal time lag between receipt of claims by the third-party administrator and payment by the Nation. As a result, no liability is reflected for this program in the accompanying financial statements. The Osage Nation Congress appropriates funds to cover the estimated cost of the health benefit each fiscal year. The unspent balance of the appropriation at September 30, 2015, was \$2,171,656 and is reported as committed fund balance in the General Fund.

Note 10: Risk Management

The Nation faces a considerable number of risks of loss, including:

- a) Damage to and destruction and loss of property and contents
- b) Environmental damage
- c) Workers' compensation (*i.e.*, employee injuries)
- d) Tort actions
- e) Errors and omissions

Osage Nation

Notes to Financial Statements

September 30, 2015

A variety of methods are used to provide insurance for these risks. Commercial insurance policies, transferring all risks of loss except for relatively small deductible amounts, are purchased for property and content damage, tort actions and errors and omissions. Settled claims for these risks have not exceeded commercial insurance coverage for the past three years.

Given the lack of coverage available, the Nation has no coverage for potential losses due to environmental damages. The amounts of any potential future losses for environmental damages are unknown.

Note 11: Deficit Fund Balance

The Nation appropriates funds from the Treasury to fund operations and programs of the Nation. Although some individual programs within the General Fund reflect a small deficit fund balance, the Nation's total General Fund has no deficit balances to report. There were no deficit fund balances for Special Revenue funds.

The Nation's Internal Service Fund has a deficit fund balance of \$440,865. The Nation uses the Internal Service Fund to account for the self-insured medical plan provided to employees. The Nation charges each program an estimated premium for each covered employee to cover the costs of claims paid. The amount charged is updated annually to reflect current costs. The Nation believes the increases in future premiums will be sufficient to cover the deficit.

Osage Nation

Notes to Financial Statements

September 30, 2015

Note 12: Fund Equity

The Nation has classified its fund balances with the following hierarchy:

	General Fund	Department of Housing and Urban Development	Department of Health and Human Services	Department of Interior	Department of Transportation	Department of Agriculture	Other Governmental Funds	Total Governmental Funds
Restricted								
Restricted for education	\$ 2,057,064	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,057,064
Restricted for collateral pledge	5,129,660	-	-	-	-	-	-	5,129,660
Restricted for purpose specified in the grant agreement	-	11,770	-	-	-	55,967	-	67,737
Total restricted	7,186,724	11,770	-	-	-	55,967	-	7,254,461
Committed								
Program purposes	-	-	373,965	24,539	761,286	-	-	1,159,790
Burial assistance	62,367	-	-	-	-	-	-	62,367
Education scholarships	3,413,372	-	-	-	-	-	-	3,413,372
Minerals Council programs	1,704,294	-	-	-	-	-	-	1,704,294
Health benefits	2,171,656	-	-	-	-	-	-	2,171,656
Restricted property purchase	359,859	-	-	-	-	-	-	359,859
Permanent Fund	30,000,000	-	-	-	-	-	-	30,000,000
Campus construction	2,121,031	-	-	-	-	-	-	2,121,031
Capital improvements	335,813	-	-	-	-	-	-	335,813
Capital – Fairfax Family Center	2,821,760	-	-	-	-	-	-	2,821,760
Osage War Memorial	150,000	-	-	-	-	-	-	150,000
Regional Gathering Fund	11,958	-	-	-	-	-	-	11,958
Fund/Court Fees	60,182	-	-	-	-	-	-	60,182
Total committed	43,212,292	-	373,965	24,539	761,286	-	-	44,372,082
Assigned								
Tribal supplements	-	-	-	-	-	-	213,756	213,756
Unassigned	(861,045)	-	-	-	-	-	-	(861,045)
Total fund balance	\$ 49,537,971	\$ 11,770	\$ 373,965	\$ 24,539	\$ 761,286	\$ 55,967	\$ 213,756	\$ 50,979,254

The Nation currently has no funds classified as nonspendable. The Nation established a Permanent Fund through Legislation (ONCA 12-85). The Permanent Fund is invested in accordance with the Nation's approved investment policy, and investment earnings are available for general appropriations. The Nation may not borrow, encumber or appropriate funds from the Permanent Fund except for expenditure on direct services for Osage Nation membership.

Note 13: Retirement Plan

Governmental, Fiduciary Funds and Business-Type Activities

Effective March 19, 2010, the Nation entered into a 401(k) plan administered by John Hancock. The Nation will match up to 5% of each employee's actual compensation. Employee contributions are allowed up to the annual limits as established by the Internal Revenue Service. The employees are 100% vested in the 401(k) plan. Contributions made by the employees to the 401(k) plan for the year ended September 30, 2015, were \$622,665. Contributions made by the Nation to the 401(k) plan for the employees for the year ended September 30, 2015, were \$463,533.

Osage Nation

Notes to Financial Statements

September 30, 2015

The Osage Nation Congress established a separate 401(k) plan for congressional members in 2013. The plan allows for contributions up to the aggregate legal limits established by the Internal Revenue Service and provides for an annual match up to 7.65% of annual compensation. Members of the Osage Nation Congress may participate in the employee 401(k) plan as well as the special Congressional 401(k) plan. Contributions made by congressional members for the year ended September 30, 2015, were \$21,628. Contributions made by the Nation to the Congressional 401(k) plan for the year ended September 30, 2015, were \$21,628.

Discretely Presented Component Units

Osage Casinos has a defined 401(k) plan which covers employees who are 21 years old and have completed three months of service. Osage Casinos matches contributions up to 5% of an employee's compensation. Employer contributions were \$1,223,112 and employee contributions were \$1,400,440 for the year ended September 30, 2015.

Note 14: Tobacco Compact

The Nation and the State of Oklahoma entered into a compact for taxation of tobacco products effective November 1, 2013. The compact provides for a compact tax equal to 100% of all applicable state taxes on cigarettes and other tobacco products in effect at the time of sale. The compact further stipulates that the compact tax will be collected by the state directly from the wholesaler and the wholesaler must collect the compact tax directly from the retailers. Under the terms of the compact, the state and the Nation will share the total taxes collected. The initial share to the Nation is 70% of all compact taxes collected, declining to 50% effective January 1, 2017. The compact terminates on December 31, 2023; however, either party may unilaterally terminate the compact without cause by giving the other party 180 days' written notice. During fiscal year 2015, the Nation received \$2,223,020 in revenue under this compact.

Note 15: Related-Party Transactions

Governmental Activities

Osage Casinos distributed \$47,322,127 to the Nation, which includes the value of capital assets transferred to the Nation. The Nation distributed \$222,304 to ONES, LLC for the purchase of real property.

Discretely Presented Component Units

During 2015, Osage Casinos made payments to Osage Manhattan Builders, LLC, an investment of Osage, LLC, in the amount of \$2,089,965 related to construction of two new Osage Casinos in Skiatook and Ponca City, Oklahoma.

Osage Nation
Notes to Financial Statements
September 30, 2015

During 2015, Osage Casinos also made payments to agencies of the Nation and/or entities affiliated with the Nation as follows:

Osage Nation Tax Commission	\$ 542,866
Osage Industrial Park	93,838
Osage Nation Gaming Commission	112,010
Osage Nation Foundation	<u>2,500</u>
	<u><u>\$ 751,214</u></u>

Note 16: Commitments

Gaming Device Leases and Wide-Area Progressive Agreements

Osage Casinos leases certain gaming devices under participation agreements and wide-area progressive agreements; the terms of these agreements range from one month to five years. These agreements typically require Osage Casinos to pay either a certain percentage of net win from each gaming device or a minimum daily rental fee for each gaming device.

Total payments under these agreements were \$19,976,226 for the year ended September 30, 2015.

Construction Projects

The Nation began a construction project in fiscal year 2013 for two new office buildings to house government administrative offices. The project is funded with a combination of tribal funds, Department of Transportation funds for infrastructure and proceeds from a \$10,000,000 loan obtained in 2014. As of September 30, 2015, the Nation's total expenditures for construction totaled \$25,607,413. During 2015, one of the buildings was placed into service at a cost of \$7,946,789 and related equipment of \$183,696, which is reflected in the accompanying government-wide financial statements as capital assets. The remaining balance of cumulative expenditures is reflected as construction in progress of \$17,426,928. The remaining commitment of tribal funds is reflected in the accompanying fund statements as committed fund balance (\$2,121,031).

Note 17: Contingent Liabilities

The Nation is currently involved in various claims and pending legal actions related to matters arising from the ordinary course of business. The Nation's administration believes the ultimate disposition of the actions will not have a material effect on the financial statements of the Nation.

The Nation receives financial assistance from numerous federal and state governmental agencies in the form of grants, entitlements and contracts. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements or contracts and is subject to audit, the purpose of which is to insure compliance with conditions precedent with the granting of funds.

Osage Nation

Notes to Financial Statements

September 30, 2015

The Nation is licensed to conduct Class II gaming operations as well as an expanded variety of gaming as allowed under a Gaming Compact with the State of Oklahoma. It is common in the industry to introduce new games and gaming technology that must be evaluated to determine whether such games meet the requirements of Class II gaming or the requirements of the Gaming Compact. This determination can be challenged by several parties, including, but not limited to, the gaming commissions that license the operations of the gaming facilities as well as various federal regulatory agencies. New games continue to be introduced at the gaming sites, which management believes are permitted under Class II gaming restrictions or the Gaming Compact; however, the permissibility of these games can be challenged by licensing and governing authorities that exercise jurisdiction over these activities.

The U.S. Department of Justice (DOJ) Office of the Inspector General (IG) performed an audit of all DOJ grant programs for the years 2007–2013. Based on the audit, the IG issued a report with questioned costs totaling \$479,181 and unallowable costs totaling \$43,371. The Nation has responded to the IG's audit report and repaid the \$43,371 of unallowable costs. The Nation has not recorded a liability for the questioned costs of \$479,181. Based on internal review and additional information provided to the DOJ, management believes these questioned costs will be resolved without repayment required. The grants are recorded in Other Governmental Funds.

The U.S. Department of Health and Human Services (DHHS) IG notified the Nation of an audit of two grant programs funded through DHHS, Temporary Assistance to Needy Families and Low Income Heating and Energy Assistance Program. The Nation is in the process of working with the IG to provide the information requested and does not expect to have any material findings or return of funding from the review.

Note 18: Subsequent Event

In January 2016, the Nation became the successful bidder for a 43,000 acre parcel of land located in Osage County and paid \$7.4 million in earnest monies. The purchase of the property known as the Turner Ranch represents the largest re-acquisition of lands formerly owned by the Nation in history. The unpaid balance of the purchase price was financed by a borrowing through a bank syndication agreement (the Agreement). The loan was closed on June 8, 2016, and on that date approximately \$67,000,000 was paid to the seller. The loan is to be repaid in quarterly installment payments of principal, interest and fees. The loan amortizes on a seven-year schedule in the first two years before switching to a ten-year amortization schedule. The stated priorities for use of these newly acquired lands includes the restoration of a homeland for bison and educational opportunities for Osage Nation youth. Additionally, another \$108 million was borrowed through the Agreement that will be used by the Osage Casinos for expansion of gaming operations. The debt service of the Agreement requires quarterly payments and will be paid by the Osage Casinos.