

*Audited Financial Statements and
Supplementary Information*

Osage Nation

September 30, 2016

OSAGE NATION

SEPTEMBER 30, 2016

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Independent Auditors' 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 financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of Osage Nation (the "Nation") as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the Nation's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Nation's 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of the Osage Casinos, Osage, LLC and Tallgrass Economic Development, LLC ("Tallgrass") which are major proprietary funds. The financial statements of Osage Casinos, Osage, LLC and Tallgrass comprise approximately 94%, 90%, and 99%, respectively, of the assets, net position, and revenues of the Nation's aggregate discretely presented component units. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Osage Casinos, Osage, LLC and Tallgrass, are based solely on the reports of the other auditors. Except as discussed below, 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 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 auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Nation'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 Nation's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, 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 discretely presented component units, each major fund, and the aggregate remaining fund information of the Nation as of September 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity 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 a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2017, 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, 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.

Rose Rock CPAs

Edmond, Oklahoma
June 27, 2017

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

This management's discussion and analysis (MD&A) of the Osage Nation's (the Nation) fiscal year 2016 financial statements is provided to give an overview of the Nation's financial activities for fiscal year 2016. 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 2016 by \$304,748. Of this amount, \$50,813 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 \$31,411 from the prior fiscal year, of which \$(59,012) is due to a net decrease in equity in component units.
- The Nation's governmental funds reported combined fund balances of \$58,070, an increase of \$7,091 from the prior year. The increase in fund equity is primarily related to net cash increase in transfers in from the component units of \$10,178.
- 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 second governmental operations building 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.

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2016

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 human 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, Tallgrass Economic Development, LLC ("Tallgrass"), Osage, LLC, Osage Home Health, Osage Nation Energy Services, and the Osage Nation Foundation 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, Tallgrass, and Osage, LLC issue separate audit reports. Osage Home Health, Osage Nation Energy Services 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 and 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, a reconciliation is provided that explains the differences between the fund and government-wide statements.

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2016

- **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 24.

Government-Wide Financial Analysis

As of September 30, 2016, the Nation's combined net position was \$304,748. Total assets increased \$29,955 (10%) and total liabilities decreased by \$1,458 (5%). The net position of governmental activities increased \$31,292 (12%) in 2016. The net position of business-type activities increased by \$120 (1%).

The unrestricted net position (\$50,813) is available to meet future obligations of the Nation.

Changes in Net Position of the Nation – The Nation's total revenues increased \$12,812 (13%) in 2016. The increase was primarily related to increase in program revenues as a result of the addition of the Health Clinic program and other programmatic increases.

Total expenses for the governmental activities increased \$8,368 (12%) to \$76,092. 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 \$1,267 (5%). The increase is primarily due to increased program expenditures related to Department of Interior grants as well as the health benefit program funded by the Nation.
- Health and human services expenses increased \$7,402 (44%) primarily due to the addition of the health clinic program.

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2016

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 26,801	\$ 18,260	\$ 2,313	\$ 2,153	\$ 29,114	\$ 20,413
Capital assets	131,292	48,385	9,144	9,381	140,436	57,766
Investments and certificates of dep.	49,497	52,275	374	-	49,871	52,275
Equity interest in component units	<u>111,342</u>	<u>170,354</u>	<u>-</u>	<u>-</u>	<u>111,342</u>	<u>170,354</u>
Total assets	<u>318,932</u>	<u>289,274</u>	<u>11,831</u>	<u>11,534</u>	<u>330,763</u>	<u>300,808</u>
Current and other liabilities	<u>25,604</u>	<u>27,238</u>	<u>411</u>	<u>234</u>	<u>26,015</u>	<u>27,472</u>
Total liabilities	<u>25,604</u>	<u>27,238</u>	<u>411</u>	<u>234</u>	<u>26,015</u>	<u>27,472</u>
Net position						
Net investment in capital assets	125,757	39,963	9,144	9,381	134,901	49,344
Restricted	119,034	177,609	-	-	119,034	177,609
Unrestricted	<u>48,537</u>	<u>44,464</u>	<u>2,276</u>	<u>1,919</u>	<u>50,813</u>	<u>46,383</u>
Total net position	<u>\$ 293,328</u>	<u>\$ 262,036</u>	<u>\$ 11,420</u>	<u>\$ 11,300</u>	<u>\$ 304,748</u>	<u>\$ 273,336</u>

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2016

Below is a summary of changes in net position for 2016 compared to 2015:

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues						
Charges for services	\$ 5,263	\$ 2,325	\$ 3,664	\$ 3,436	\$ 8,927	\$ 5,761
Operating grants/contributions	22,913	18,527	56	98	22,969	18,625
Capital grants/contributions	2,638	-	-	-	2,638	-
General revenues						
Change in equity in component units	(59,012)	22,246	-	-	(59,012)	22,246
Interest expense	(98)	(123)	-	-	(98)	(123)
Investment income (loss)	1,979	(174)	53	45	2,032	(129)
Tax revenue	2,456	2,223	-	-	2,456	2,223
Indirect cost recoveries	6,596	6,136	-	-	6,596	6,136
Gaming distributions received	127,282	47,322	-	-	127,282	47,322
Other	2,025	942	-	-	2,025	942
	<u>112,042</u>	<u>99,424</u>	<u>3,773</u>	<u>3,579</u>	<u>115,815</u>	<u>103,003</u>
Expenses						
General government	26,665	25,398	-	-	26,665	25,398
Education	13,534	13,827	-	-	13,534	13,827
Health and human services	24,348	16,946	-	-	24,348	16,946
Community services	535	599	-	-	535	599
Culture and language	2,641	2,370	-	-	2,641	2,370
Environmental management	1,087	1,542	-	-	1,087	1,542
Housing services	1,550	1,466	-	-	1,550	1,466
Public safety	2,427	2,199	-	-	2,427	2,199
Public works	809	1,322	-	-	809	1,322
Unallocated depreciation	2,496	2,055	-	-	2,496	2,055
Osage Properties	-	-	1,976	1,863	1,976	1,863
Revenue Tax	-	-	458	477	458	477
Other	-	-	3,378	2,166	3,378	2,166
	<u>76,092</u>	<u>67,724</u>	<u>5,812</u>	<u>4,506</u>	<u>81,904</u>	<u>72,230</u>
Changes Before Transfers	<u>35,950</u>	<u>31,700</u>	<u>(2,039)</u>	<u>(927)</u>	<u>33,911</u>	<u>30,773</u>
Distributions to Related Parties	<u>(2,500)</u>	<u>(222)</u>	<u>-</u>	<u>-</u>	<u>(2,500)</u>	<u>(222)</u>
Transfers	<u>(2,159)</u>	<u>(409)</u>	<u>2,159</u>	<u>409</u>	<u>-</u>	<u>-</u>
Change in Net Position	<u>31,291</u>	<u>31,069</u>	<u>120</u>	<u>(518)</u>	<u>31,411</u>	<u>30,551</u>
Net Position, Beginning of Year	<u>262,036</u>	<u>230,967</u>	<u>11,300</u>	<u>11,818</u>	<u>273,336</u>	<u>242,785</u>
Net Position, End of Year	<u>\$ 293,327</u>	<u>\$ 262,036</u>	<u>\$ 11,420</u>	<u>\$ 11,300</u>	<u>\$ 304,747</u>	<u>\$ 273,336</u>

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2016

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	\$ 1,091	\$ 1,976	\$ 380	\$ (505)
Revenue Tax	1,714	458	(999)	257
Nonmajor Proprietary Funds	968	3,378	2,778	368
	<u>\$ 3,773</u>	<u>\$ 5,812</u>	<u>\$ 2,159</u>	<u>\$ 120</u>

Governmental Funds Financial Analysis

Governmental funds have a combined fund balance of \$58,070, up \$7,091 (14%) from 2015. There is an unassigned fund balance of approximately 8% 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 (\$7,692), which represents balances restricted by external agreements, assigned (\$268) and committed (\$44,655), 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 increased \$7,642 to \$57,180. Of this amount, there is an unassigned fund balance which represents approximately 8% of the total fund balance. The remaining fund balance of \$57,180 is classified as restricted (\$7,387) and committed (\$44,446). 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 52% of General Fund balance. The increase in fund balance is primarily due to increased gaming distributions received from Osage Casinos.

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2016

Proprietary Funds Financial Analysis

Proprietary funds had a combined net position of \$11,908, an increase of \$608 from 2015.

- The Osage Properties fund had an operating loss of \$885 with transfers in for operating costs of \$380. The majority of the Osage Properties fund net position is invested in capital assets of \$7,990 (94%).
- The Revenue Tax fund had operating income of \$1,252 with transfers out to the General Fund of \$999 and an ending net position of \$482. The fund generally transfers residual income to the General Fund.
- Other proprietary funds had a combined loss before transfers of \$2,409 with transfers in of \$2,159 and an ending net position of \$2,778.

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 2016 actual expenditures compared to budget are shown below:

OSAGE NATION**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED****September 30, 2016**

	General Fund 2016		
	Actual	Budget	Variance
Revenues and Gaming Distributions			
Tax revenue	\$ 2,456	\$ 2,657	\$ (201)
Indirect cost recoveries	6,596	6,744	(148)
Investment income (loss)	1,887	900	987
Program and other revenue	4,680	2,925	1,755
Casino distribution	<u>60,582</u>	<u>60,000</u>	<u>582</u>
Total	<u>\$ 76,201</u>	<u>\$ 73,226</u>	<u>\$ 2,975</u>
Expenditures			
Community services	\$ 507	\$ 781	\$ (274)
Culture and language	2,630	2,066	564
Education	9,887	13,018	(3,131)
Environmental management	426	587	(161)
General government	25,029	23,735	1,294
Health and human services	8,759	7,520	1,239
Housing services	244	260	(16)
Public safety	1,410	1,757	(347)
Capital outlay	13,070	17,242	(4,172)
Debt service – principal	1,000	1,000	-
Debt service – interest	<u>98</u>	<u>200</u>	<u>(102)</u>
Total	<u>\$ 63,060</u>	<u>\$ 68,166</u>	<u>\$ (5,106)</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 2016 includes the balances in these funds at the end of 2015.

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2016

Capital Assets and Debt Administration

Capital Assets – The Nation has a \$140,436 net investment in capital assets at the end of fiscal year 2016. This represents a net increase of \$82,670 over the prior year. The most significant increases are related to construction of two office buildings for the main Osage Nation campus, which were completed at year-end and are reflected in the buildings category, and the purchase of the Blue Stem Ranch.

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land	\$ 78,493	\$ 4,013	\$ 2,827	\$ 2,827	\$ 81,320	\$ 6,840
Buildings	43,719	24,095	6,040	6,212	49,759	30,307
Equipment	2,141	1,747	277	342	2,418	2,089
Vehicles	398	539	-	-	398	539
Construction in progress	6,541	17,991	-	-	6,541	17,991
	<u>\$ 131,292</u>	<u>\$ 48,385</u>	<u>\$ 9,144</u>	<u>\$ 9,381</u>	<u>\$ 140,436</u>	<u>\$ 57,766</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, 2016, \$5,250 was outstanding on the loan.

Economic Factors and Next Year's Budget

The local economy remains relatively stable with some growth expected in 2017. The additional capital investments by the Nation's gaming enterprise should aid in revenue growth for 2017.

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, 2016

	Primary Government			
	Governmental Activities	Business-Type Activities	Total	Component Units
Assets				
Cash and cash equivalents	\$ 22,538,482	\$ 1,959,584	\$ 24,498,066	\$ 66,030,389
Certificates of deposit	12,320,204	374,067	12,694,271	-
Investments	31,940,998	-	31,940,998	888,055
Due from other governments	1,460,709	-	1,460,709	-
Accounts receivable, net	1,813,103	208,085	2,021,188	2,619,219
Prepaid expenses and other	888,288	134,242	1,022,530	1,830,114
Inventory	89,083	22,307	111,390	1,146,251
Restricted certificate of deposit	5,235,704	-	5,235,704	-
Due from other funds - internal balances	11,314	(11,314)	-	33,172
Equity interests in component units	111,342,001	-	111,342,001	1,932,739
Capital assets:				
Land and construction in progress	85,034,457	2,827,020	87,861,477	-
Other capital assets, net	46,257,231	6,316,679	52,573,910	131,635,766
Total assets	<u>\$ 318,931,574</u>	<u>\$ 11,830,670</u>	<u>\$ 330,762,244</u>	<u>\$ 206,115,705</u>
Liabilities				
Accounts payable	\$ 2,741,329	\$ 225,799	\$ 2,967,128	\$ 7,087,311
Accrued liabilities	922,771	95,782	1,018,553	8,767,458
Retainage payable	284,731	-	284,731	-
Health claims liability	537,105	-	537,105	-
Other liabilities	507,249	-	507,249	206,743
Unearned grant revenue	14,030,340	-	14,030,340	-
Compensated absences	1,330,391	88,932	1,419,323	-
Notes payable				
Due within one year	1,000,000	-	1,000,000	11,964,285
Due in more than one year	4,250,000	-	4,250,000	54,735,613
Total liabilities	<u>\$ 25,603,916</u>	<u>\$ 410,513</u>	<u>\$ 26,014,429</u>	<u>\$ 82,761,410</u>
Net position				
Net investment in capital assets	\$ 125,756,957	\$ 9,143,699	\$ 134,900,656	\$ 131,635,766
Restricted for:				
Equity investment in Component Units	111,342,001	-	111,342,001	-
Education	2,151,564	-	2,151,564	-
Collateral pledges	5,235,704	-	5,235,704	-
Program services	305,167	-	305,167	-
Minority interest	-	-	-	1,000,000
Unrestricted	48,536,265	2,276,458	50,812,723	(9,281,471)
Total net position	<u>\$ 293,327,658</u>	<u>\$ 11,420,157</u>	<u>\$ 304,747,815</u>	<u>\$ 123,354,295</u>

See accompanying notes to financial statements.

OSAGE NATION

STATEMENT OF ACTIVITIES

Year ended September 30, 2016

Functions/Programs	Expenses	Program Revenues			Net Revenue (Expense) and Changes in Net Position			
		Charges for Sales and Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	Component Units
Governmental activities:								
General government	\$ 26,664,628	\$ 1,040,181	\$ 941,809	\$ -	\$ (24,682,638)	\$ -	\$ (24,682,638)	\$ -
Education	13,533,928	5,960	2,941,749	-	(10,586,219)	-	(10,586,219)	-
Health and human services	24,347,911	2,424,519	13,137,530	-	(8,785,862)	-	(8,785,862)	-
Community services	534,884	-	28,279	-	(506,605)	-	(506,605)	-
Culture and language	2,641,608	1,500,258	9,799	-	(1,131,551)	-	(1,131,551)	-
Environmental management	1,087,067	17,575	632,205	-	(437,287)	-	(437,287)	-
Housing services	1,550,062	75,530	4,311,589	-	2,837,057	-	2,837,057	-
Public safety	2,427,183	198,723	909,978	-	(1,318,482)	-	(1,318,482)	-
Public works	809,012	-	-	2,637,587	1,828,575	-	1,828,575	-
Unallocated depreciation	2,495,570	-	-	-	(2,495,570)	-	(2,495,570)	-
Total governmental activities	76,091,853	5,262,746	22,912,938	2,637,587	(45,278,582)	-	(45,278,582)	-
Business-type activities:								
Osage Properties	1,976,407	1,091,104	-	-	-	(885,303)	(885,303)	-
Revenue tax	458,127	1,709,641	-	-	-	1,251,514	1,251,514	-
Other	3,377,859	863,120	55,576	-	-	(2,459,163)	(2,459,163)	-
Total business-type activities	5,812,393	3,663,865	55,576	-	-	(2,092,952)	(2,092,952)	-
Total primary government	\$ 81,904,246	\$ 8,926,611	\$ 22,968,514	\$ 2,637,587	(45,278,582)	(2,092,952)	(47,371,534)	-
Component units:	\$ 132,956,132	\$ 200,035,646	\$ -	\$ -	-	-	-	67,079,514
General revenues:								
Investment income					1,979,214	53,355	2,032,569	134,052
Tobacco tax revenue					2,456,352	-	2,456,352	-
Interest expense					(97,972)	-	(97,972)	(1,373,276)
Other income					2,025,261	-	2,025,261	-
Indirect cost recoveries					6,596,402	-	6,596,402	-
Gaming distributions received					127,282,063	-	127,282,063	(127,282,063)
Decrease in equity in component units					(59,011,835)	-	(59,011,835)	(67,261)
Contributions to component units					(2,500,000)	-	(2,500,000)	2,500,000
Transfers, net					(2,159,363)	2,159,363	-	-
Total general revenues and transfers					76,570,122	2,212,718	78,782,840	(126,088,548)
Change in net position					31,291,540	119,766	31,411,306	(59,009,034)
Net position, beginning of year					262,036,118	11,300,391	273,336,509	182,363,329
Net position, end of year					\$ 293,327,658	\$ 11,420,157	\$ 304,747,815	\$ 123,354,295

See accompanying notes to financial statements.

OSAGE NATION

BALANCE SHEET--GOVERNMENTAL FUNDS

September 30, 2016

	General Fund	Department of Housing and Urban Development	Department of Health and Human Services	Department of Interior	Department of Transportation	Department of Agriculture	Nonmajor Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents	\$ 20,298,169	\$ 675,733	\$ 1,179,512	\$ 440,713	\$ 16,293	\$ -	\$ 211,403	\$ 22,821,823
Certificates of deposit	227,727	-	-	-	12,092,477	-	-	12,320,204
Investments	31,940,998	-	-	-	-	-	-	31,940,998
Accounts receivable, net	1,348,140	-	399,801	58,040	-	-	7,122	1,813,103
Due from other funds	161,759	-	-	-	-	-	58,942	220,701
Due from other governments	-	365,950	311,306	347,414	-	360,668	75,371	1,460,709
Inventory	-	-	89,083	-	-	-	-	89,083
Prepaid expenses and other assets	580,361	6,958	222,747	35,548	1,996	6,974	1,570	856,154
Restricted certificate of deposit	5,235,704	-	-	-	-	-	-	5,235,704
Total assets	<u>\$ 59,792,858</u>	<u>\$ 1,048,641</u>	<u>\$ 2,202,449</u>	<u>\$ 881,715</u>	<u>\$ 12,110,766</u>	<u>\$ 367,642</u>	<u>\$ 354,408</u>	<u>\$ 76,758,479</u>
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	\$ 1,273,876	\$ 358,772	\$ 423,205	\$ 38,932	\$ 459,822	\$ 177,626	\$ 9,096	\$ 2,741,329
Retainage payable	231,421	-	-	-	53,310	-	-	284,731
Accrued liabilities	612,313	11,478	157,896	64,904	14,670	28,450	25,960	915,671
Unearned grant revenue	353,313	-	1,504,762	762,235	11,359,927	-	50,103	14,030,340
Due to other funds	-	924	19,189	15,644	12,064	161,566	-	209,387
Other accrued liabilities	141,907	365,342	-	-	-	-	-	507,249
Total liabilities	<u>2,612,830</u>	<u>736,516</u>	<u>2,105,052</u>	<u>881,715</u>	<u>11,899,793</u>	<u>367,642</u>	<u>85,159</u>	<u>18,688,707</u>
Fund balances:								
Nonspendable	580,361	6,958	97,397	-	1,996	-	1,570	688,282
Restricted	7,387,268	305,167	-	-	-	-	-	7,692,435
Committed	44,445,903	-	-	-	208,977	-	-	44,654,880
Assigned	-	-	-	-	-	-	267,679	267,679
Unassigned	4,766,496	-	-	-	-	-	-	4,766,496
Total fund balances	<u>57,180,028</u>	<u>312,125</u>	<u>97,397</u>	<u>-</u>	<u>210,973</u>	<u>-</u>	<u>269,249</u>	<u>58,069,772</u>
Total liabilities and fund balances	<u>\$ 59,792,858</u>	<u>\$ 1,048,641</u>	<u>\$ 2,202,449</u>	<u>\$ 881,715</u>	<u>\$ 12,110,766</u>	<u>\$ 367,642</u>	<u>\$ 354,408</u>	<u>\$ 76,758,479</u>

See accompanying notes to financial statements.

OSAGE NATION

**RECONCILIATION OF THE FUND BALANCES PER THE BALANCE SHEET--
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION**

September 30, 2016

Total government fund balance	\$ 58,069,772
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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.

Capital assets	142,762,541	
Accumulated depreciation	<u>(11,470,853)</u>	131,291,688

Equity investment in component units are not an available resource and, therefore, are not reported in the funds	111,342,001
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Notes payable are not due and payable in the current period, and therefore, are not reported in the funds.	(5,250,000)
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Compensated balances are not due and payable in the current period and therefore are not reported in the funds.	(1,330,391)
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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 governmental activities on the statement of net position.	<u>(795,412)</u>
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Net position for governmental activities	<u>\$ 293,327,658</u>
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See accompanying notes to financial statements.

OSAGE NATION

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES--
GOVERNMENTAL FUNDS

Year ended September 30, 2016

	General Fund	Department of Housing and Urban Development	Department of Health and Human Services	Department of Interior	Department of Transportation	Department of Agriculture	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:								
Intergovernmental grants and contracts	\$ -	\$ 4,311,589	\$ 9,988,354	\$ 3,616,469	\$ 2,637,587	\$ 3,807,410	\$ 1,189,116	\$ 25,550,525
Tobacco tax revenue	2,456,352	-	-	-	-	-	-	2,456,352
Program revenue	2,692,937	75,530	2,159,967	196,500	-	23,595	114,217	5,262,746
Indirect cost revenue	6,596,402	-	-	-	-	-	-	6,596,402
Investment revenue	1,887,172	1,480	8,398	-	82,164	-	-	1,979,214
Other	1,987,261	-	-	-	-	38,000	-	2,025,261
Total revenues	15,620,124	4,388,599	12,156,719	3,812,969	2,719,751	3,869,005	1,303,333	43,870,500
Expenditures:								
General Government	25,028,736	-	-	941,809	-	-	-	25,970,545
Education	9,887,424	-	2,238,594	728,379	-	-	679,531	13,533,928
Health and human services	8,759,126	-	10,476,634	861,658	-	3,915,457	335,036	24,347,911
Community services	506,605	-	28,279	-	-	-	-	534,884
Culture and language	2,630,494	-	-	11,114	-	-	-	2,641,608
Environmental management	425,695	-	-	200,286	-	-	461,086	1,087,067
Housing services	243,827	1,306,235	-	-	-	-	-	1,550,062
Public safety	1,410,353	-	-	1,010,643	-	-	6,187	2,427,183
Public works	-	-	-	-	809,012	-	-	809,012
Capital outlay	13,069,781	3,032,009	22,879	66,118	2,461,052	-	50,481	18,702,320
Debt service								
Principal	1,000,292	-	-	-	-	-	-	1,000,292
Interest	97,972	-	-	-	-	-	-	97,972
Note origination costs	-	-	-	-	-	-	-	-
Total expenditures	63,060,305	4,338,244	12,766,386	3,820,007	3,270,064	3,915,457	1,532,321	92,702,784
Revenues over (under) expenditures	(47,440,181)	50,355	(609,667)	(7,038)	(550,313)	(46,452)	(228,988)	(48,832,284)
Other financing sources (uses):								
Transfers in	-	250,000	333,099	-	-	-	284,481	867,580
Transfers out	(2,999,927)	-	-	(17,501)	-	(9,515)	-	(3,026,943)
Distributions to related parties	(2,500,000)	-	-	-	-	-	-	(2,500,000)
Gaming distributions	60,582,165	-	-	-	-	-	-	60,582,165
Total other financing sources (uses)	55,082,238	250,000	333,099	(17,501)	-	(9,515)	284,481	55,922,802
Net changes in fund balances	7,642,057	300,355	(276,568)	(24,539)	(550,313)	(55,967)	55,493	7,090,518
Fund balance, beginning of year	49,537,971	11,770	373,965	24,539	761,286	55,967	213,756	50,979,254
Fund balance, end of year	\$ 57,180,028	\$ 312,125	\$ 97,397	\$ -	\$ 210,973	\$ -	\$ 269,249	\$ 58,069,772

See accompanying notes to financial statements.

OSAGE NATION

**RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES--GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**

Year ended September 30, 2016

Net changes in fund balances--total governmental funds \$ 7,090,518

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in the fund financial statements because they use current financial resources, but they are presented as assets in the statement of activities and depreciated over their estimated economic lives.

Capital outlay expenditures capitalized	85,402,218	
Net book value of disposed assets	-	
Depreciation expense	<u>(2,495,570)</u>	82,906,648

Change in equity investment in component units (59,011,835)

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 (354,547)

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 1,000,292

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds

Changes in compensated absences	<u>(339,536)</u>	
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Change in net position of governmental activities \$ 31,291,540

See accompanying notes to financial statements.

OSAGE NATION

STATEMENT OF NET POSITION—PROPRIETARY FUNDS

September 30, 2016

	Business-Type Activities				Governmental Activities
	Osage Properties	Revenue Tax	Nonmajor Funds	Total	Internal Service Fund
Assets					
Current assets:					
Cash and cash equivalents	\$ 519,352	\$ 393,030	\$ 1,047,202	\$ 1,959,584	\$ -
Certificates of deposit	-	-	374,067	374,067	-
Accounts receivable	12,290	95,651	100,144	208,085	-
Prepaid expenses	108,109	959	25,174	134,242	32,134
Inventory	-	22,307	-	22,307	-
Total current assets	639,751	511,947	1,546,587	2,698,285	32,134
Noncurrent assets					
Capital assets, net	7,989,786	-	1,153,913	9,143,699	-
	<u>7,989,786</u>	<u>-</u>	<u>1,153,913</u>	<u>9,143,699</u>	<u>-</u>
Total assets	<u>\$ 8,629,537</u>	<u>\$ 511,947</u>	<u>\$ 2,700,500</u>	<u>\$ 11,841,984</u>	<u>\$ 32,134</u>
Liabilities					
Current liabilities:					
Accounts payable	\$ 89,957	\$ 1,336	\$ 134,506	\$ 225,799	\$ -
Overdrafts	-	-	-	-	283,341
Accrued liabilities	16,172	11,500	68,110	95,782	7,100
Health claims liability	-	-	-	-	537,105
Compensated absences	16,102	5,536	67,294	88,932	-
Due to other funds	-	11,314	-	11,314	-
Total liabilities	<u>\$ 122,231</u>	<u>\$ 29,686</u>	<u>\$ 269,910</u>	<u>\$ 421,827</u>	<u>\$ 827,546</u>
Net position (deficit)					
Net investment in capital assets	\$ 7,989,786	\$ -	\$ 1,153,913	\$ 9,143,699	\$ -
Unrestricted	517,520	482,261	1,276,677	2,276,458	(795,412)
Total net position (deficit)	<u>\$ 8,507,306</u>	<u>\$ 482,261</u>	<u>\$ 2,430,590</u>	<u>\$ 11,420,157</u>	<u>\$ (795,412)</u>

See accompanying notes to financial statements.

OSAGE NATION

STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION--
PROPRIETARY FUNDS

Year ended September 30, 2016

	Business-Type Activities				Governmental Activities
	Osage Properties	Revenue Tax	Nonmajor Funds	Total	Internal Service Fund
Operating revenues:					
Utility income	\$ -	\$ -	\$ 587,202	\$ 587,202	\$ -
Rental income	1,091,104	-	57,573	1,148,677	-
Tax revenue	-	1,639,407	-	1,639,407	-
Intergovernmental	-	-	55,576	55,576	-
Claims cost recovery	-	-	-	-	5,086,061
Other revenue	-	70,234	218,345	288,579	-
Total operating revenues	1,091,104	1,709,641	918,696	3,719,441	5,086,061
Operating expenses:					
Cost of merchandise sales	-	10,913	488,775	499,688	-
Salaries and benefits	592,225	294,693	1,685,233	2,572,151	-
Contractual and professional services	32,374	-	33,265	65,639	-
Travel and training	20,008	8,299	37,982	66,289	-
Expendable equipment	15,945	20,489	29,405	65,839	-
Repairs and maintenance / occupancy	122,189	-	165,793	287,982	-
Tribal member assistance	-	-	80,678	80,678	-
Claims incurred	-	-	-	-	5,440,608
Indirect cost	155,521	71,088	477,709	704,318	-
Other supplies and expenses	585,848	52,645	343,437	981,930	-
Depreciation	452,297	-	35,582	487,879	-
Total operating expenses	1,976,407	458,127	3,377,859	5,812,393	5,440,608
Operating income (loss)	(885,303)	1,251,514	(2,459,163)	(2,092,952)	(354,547)
Nonoperating revenue:					
Interest income	-	3,651	49,704	53,355	-
Total nonoperating revenue	-	3,651	49,704	53,355	-
Income (loss) before transfers	(885,303)	1,255,165	(2,409,459)	(2,039,597)	(354,547)
Transfers in (out)	380,038	(999,035)	2,778,360	2,159,363	-
Net transfers	380,038	(999,035)	2,778,360	2,159,363	-
Change in net position	(505,265)	256,130	368,901	119,766	(354,547)
Net position at beginning of year	9,012,571	226,131	2,061,689	11,300,391	(440,865)
Net position (deficit) at end of year	\$ 8,507,306	\$ 482,261	\$ 2,430,590	\$ 11,420,157	\$ (795,412)

See accompanying notes to financial statements.

OSAGE NATION

STATEMENTS OF CASH FLOWS--PROPRIETARY FUNDS

Year ended September 30, 2016

	Business-Type Activities				Governmental Activities
	Osage Properties	Revenue Tax	Nonmajor Funds	Total	Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 1,078,814	\$ 1,695,431	\$ 923,817	\$ 3,698,062	\$ 5,086,061
Cash paid to employees	(589,786)	(294,693)	(1,675,585)	(2,560,064)	-
Cash paid to suppliers	(891,396)	(175,134)	(1,547,101)	(2,613,631)	-
Cash received from (paid to) other funds	(4,487)	(997,076)	(10,808)	(1,012,371)	240,189
Cash paid for claims	-	-	-	-	(5,331,167)
Net cash provided by (used in) operating activities	(406,855)	228,528	(2,309,677)	(2,488,004)	(4,917)
Investing activities:					
Purchase of investments	-	-	(1,877)	(1,877)	-
Interest received	-	3,651	49,704	53,355	-
Net cash used in noncapital financing activities	-	3,651	47,827	51,478	-
Cash flows from noncapital financing activities:					
Transfers, net	380,038	(999,035)	2,778,360	2,159,363	-
Net cash used in noncapital financing activities	380,038	(999,035)	2,778,360	2,159,363	-
Cash flows from capital and related financing activities:					
Purchase of building	-	-	(250,000)	(250,000)	-
Net cash used in noncapital financing activities	-	-	(250,000)	(250,000)	-
Net increase (decrease) in cash and cash equivalents	(26,817)	(766,856)	266,510	(527,163)	(4,917)
Cash and cash equivalents at beginning of year	546,169	1,159,886	780,692	2,486,747	4,917
Cash and cash equivalents at end of year	\$ 519,352	\$ 393,030	\$ 1,047,202	\$ 1,959,584	\$ -

See accompanying notes to financial statements.

OSAGE NATION

STATEMENTS OF CASH FLOWS--PROPRIETARY FUNDS, CONTINUED

Year ended September 30, 2016

	Business-Type Activities				Governmental
	Osage Properties	Revenue Tax	Nonmajor Funds	Total	Internal Service Fund
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:					
Operating income (loss)	\$ (885,303)	\$ 1,251,514	\$ (2,459,163)	\$ (2,092,952)	\$ (354,547)
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	452,297	-	35,582	487,879	-
Changes in assets and liabilities:					
Accounts receivable	(12,290)	(14,210)	5,121	(21,379)	-
Other assets	(17,166)	(782)	(8,000)	(25,948)	(32,134)
Accounts payable	53,112	(6,134)	77,694	124,672	(138,945)
Accrued liabilities	6,982	(4,784)	49,897	52,095	280,520
Due to other funds	(4,487)	(997,076)	(10,808)	(1,012,371)	240,189
Net cash provided by operating activities	<u>\$ (406,855)</u>	<u>\$ 228,528</u>	<u>\$ (2,309,677)</u>	<u>\$ (2,488,004)</u>	<u>\$ (4,917)</u>

See accompanying notes to financial statements.

OSAGE NATION

**COMBINING STATEMENT OF NET POSITION--
DISCRETELY PRESENTED COMPONENT UNITS**

September 30, 2016

	Osage Casinos	Tallgrass Economic Development, LLC *	Osage, LLC *	Osage Home Health	Osage Nation Energy Services	Osage Nation Foundation	Total
Assets							
Cash and cash equivalents	\$ 63,039,288	\$ 856,755	\$ 422,142	\$ 10,793	\$ 262,303	\$ 439,108	\$ 65,030,389
Restricted cash and cash equivalents	-	-	1,000,000	-	-	-	1,000,000
Accounts receivable	2,424,707	-	16,391	178,121	-	-	2,619,219
Prepaid expenses and other	1,742,265	21,942	65,857	-	50	-	1,830,114
Investments	-	-	888,055	-	-	-	888,055
Due from related party	-	148,479	-	-	-	-	148,479
Equity interest in component unit	-	1,932,739	-	-	-	-	1,932,739
Inventory	1,122,238	-	-	5,259	-	18,754	1,146,251
Capital assets, net	119,794,768	22,992	1,238	-	116,768	11,700,000	131,635,766
Total assets	<u>\$ 188,123,266</u>	<u>\$ 2,982,907</u>	<u>\$ 2,393,683</u>	<u>\$ 194,173</u>	<u>\$ 379,121</u>	<u>\$ 12,157,862</u>	<u>\$ 206,231,012</u>
Liabilities							
Accounts payable	\$ 6,737,944	\$ 15,783	\$ 291,126	\$ 42,458	\$ -	\$ -	\$ 7,087,311
Accrued liabilities	8,690,143	10,742	14,854	-	12,079	39,640	8,767,458
Due to related party	-	-	115,307	-	-	-	115,307
Billings in excess of costs and estimated earnings on contracts	-	-	100,815	-	-	-	100,815
Long-term debt	66,699,898	-	-	-	-	-	66,699,898
Annuity payable	-	-	-	-	-	105,928	105,928
Total liabilities	<u>\$ 82,127,985</u>	<u>\$ 26,525</u>	<u>\$ 522,102</u>	<u>\$ 42,458</u>	<u>\$ 12,079</u>	<u>\$ 145,568</u>	<u>\$ 82,876,717</u>
Net position (deficit)							
Net investment in capital assets	\$ 119,794,768	\$ 22,992	\$ 1,238	\$ -	\$ 116,768	\$ 11,700,000	\$ 131,635,766
Restricted	-	-	1,000,000	-	-	-	1,000,000
Unrestricted	(13,799,487)	2,933,390	870,343	151,715	250,274	312,294	(9,281,471)
Total net position (deficit)	<u>\$ 105,995,281</u>	<u>\$ 2,956,382</u>	<u>\$ 1,871,581</u>	<u>\$ 151,715</u>	<u>\$ 367,042</u>	<u>\$ 12,012,294</u>	<u>\$ 123,354,295</u>

* Information as of December 31, 2016

See accompanying notes to financial statements.

OSAGE NATION
**STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES IN NET POSITION--
DISCRETELY PRESENTED COMPONENT UNITS**

Year ended September 30, 2016

	Osage Casinos	Tallgrass Economic Development, LLC *	Osage, LLC*	Osage Home Health	Osage Nation Energy Services	Osage Nation Foundation	Total
Operating revenues:							
Gaming revenue	\$ 174,672,502	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 174,672,502
Merchandise sales	9,320,283	-	-	-	-	8,864	9,329,147
Food and beverage	8,997,257	-	-	-	-	-	8,997,257
Charges for goods and services	-	-	-	626,894	-	-	626,894
Grants and donations	-	-	-	-	-	171,630	171,630
Lease income	-	1,502	-	-	14,300	108,000	123,802
Contract income	-	-	1,022,025	-	-	-	1,022,025
Other revenue	6,248,518	-	559,816	-	453	-	6,808,787
Less promotional allowances	(1,716,398)	-	-	-	-	-	(1,716,398)
Total operating revenues	197,522,162	1,502	1,581,841	626,894	14,753	288,494	200,035,646
Operating expenses:							
Salaries and benefits	53,744,491	141,214	223,074	307,515	-	-	54,416,294
Contractual and professional services	-	73,054	155,857	235,520	1,663	91,785	557,879
Cost of goods sold	-	-	1,111,285	-	-	-	1,111,285
Travel and training	-	8,748	11,398	16,212	436	4,204	40,998
Repairs and maintenance	-	-	-	-	11,425	-	11,425
Marketing and advertising	7,087,229	-	431	-	-	-	7,087,660
Depreciation and amortization	14,517,935	1,937	13,455	-	7,426	-	14,540,753
Annuity expense	-	-	-	-	-	36,000	36,000
Grant expense	-	-	-	-	-	123,003	123,003
Gaming and related	20,919,571	-	-	-	-	-	20,919,571
General and administrative	11,693,277	79,843	145,465	79,056	10,559	30,701	12,038,901
Food and beverage	4,790,019	-	-	-	-	-	4,790,019
Compact fees	7,903,111	-	-	-	-	-	7,903,111
Retail	8,164,798	-	-	-	-	-	8,164,798
Hotel	522,246	-	-	-	-	-	522,246
Entertainment	570,992	-	-	-	-	-	570,992
Other supplies and expenses	62,372	20,083	25,909	10,156	2,677	-	121,197
Total operating expenses	129,976,041	324,879	1,686,874	648,459	34,186	285,693	132,956,132
Operating income (loss)	67,546,121	(323,377)	(105,033)	(21,565)	(19,433)	2,801	67,079,514
Nonoperating revenues (expenses):							
Interest income	134,052	-	-	-	-	-	134,052
Interest expense	(1,373,276)	-	-	-	-	-	(1,373,276)
Decrease in equity in component unit	-	(67,261)	-	-	-	-	(67,261)
Total nonoperating revenues (expenses)	(1,239,224)	(67,261)	-	-	-	-	(1,306,485)
Contributions (distributions) from (to) Osage Nation	(127,282,063)	3,347,020	(847,020)	-	-	-	(124,782,063)
Change in net position	(60,975,166)	2,956,382	(952,053)	(21,565)	(19,433)	2,801	(59,009,034)
Net position at beginning of year	166,970,447	-	2,823,634	173,280	386,475	12,009,493	182,363,329
Net position (deficit) at end of year	\$ 105,995,281	\$ 2,956,382	\$ 1,871,581	\$ 151,715	\$ 367,042	\$ 12,012,294	\$ 123,354,295

* Information for the year ended December 31, 2016

See accompanying notes to financial statements.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 approximately 25,000 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 Osage Nation Congress’ primary responsibility is to draft the laws for the Nation. The voting members of the Nation hold elections every two years where six of the twelve Osage Nation Congress representatives’ seats are voted on a rotating basis with each representative being elected to a four-year term. The Executive branch provides the executive power of the Nation and consists of a Principal Chief and an Assistant Principal Chief. Principal Chief and Assistant Principal Chief are elected to four-year terms as determined by the voting members of the Nation. 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.

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, CONTINUED

September 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

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

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 six discretely presented component units: Osage Casinos, Tallgrass Economic Development, LLC, Osage, LLC, Osage Home Health, Osage Nation Energy Services, 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 NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

REPORTING ENTITY, CONTINUED

Tallgrass Economic Development, LLC (“Tallgrass”) – Tallgrass is a single member limited liability company owned by the Nation. Tallgrass has one 100%-owned discretely presented component unit, Bluestem Ranch, LLC. Bluestem was formed to build and maintain ranching operations on property owned by the Nation and located in Osage County.

Osage, LLC – Osage, LLC is a holding company that owns other businesses established or purchased by Osage, LLC. The Nation is able to exert significant influence over Osage, LLC’s activities as a result of its appointment of the Board of Directors by the Principal Chief of the Nation and confirmation by the Nation’s Congress.

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

Osage Nation Energy Services (“ONES”) – ONES is an oilfield service business providing products and services to the local and regional pipeline and oilfield industry.

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, ONES and the Osage Nation Foundation, component units which have year-ends of September 30 and Tallgrass and Osage, LLC which have year-ends of December 31.

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, 2016, distributions from the Osage Casinos amounted to \$127,282,063.

September 30, 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

BASIS OF PRESENTATION, CONTINUED

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.
- **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.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

BASIS OF PRESENTATION, CONTINUED

- o **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.
- o **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.

September 30, 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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.

ASSETS, LIABILITIES, AND EQUITY

Cash and cash equivalents-- The Nation has classified as cash equivalents all highly liquid investments with an original maturity of three months or less. At September 30, 2016, cash equivalents consisted primarily of short-term certificates of deposit and U.S. Government overnighters.

Certificates of deposit-- Certificates of deposit consist of term investments with original maturities greater than three months and are carried at cost, which approximates fair value.

Investments-- Investments are carried at fair value. Fair value is determined by the reported market value of securities and mutual funds trading on a national exchange.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

ASSETS, LIABILITIES, AND EQUITY, CONTINUED

Accounts receivable-- The Nation records normal business receivables as well as loans to tribal employees 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, 2016, amounted to \$1,460,709.

Prepaid expenses-- Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid in both the government-wide and fund financial statements.

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 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 2016.

Inventory-- Governmental Funds, 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.

Interfund receivables and payables-- 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.

Government-wide and proprietary fund financial statements-- In the government-wide and proprietary fund financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, net of accumulated depreciation. The cost of normal maintenance and repairs to these assets that do not add materially to the value of the asset or materially extend the assets' useful lives are not capitalized.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**ASSETS, LIABILITIES, AND EQUITY, CONTINUED**

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:

<u>Asset Category</u>	<u>Threshold</u>	<u>Years</u>
Governmental Activities and Business-Type Activities		
Buildings and improvements	\$ 10,000	25
Furniture, fixtures and equipment	\$ 10,000	10
Vehicles and mobile equipment	\$ 10,000	5
Discretely Presented Component Units		
Buildings and improvements	\$ 5,000	25
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

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, 2016.

September 30, 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

ASSETS, LIABILITIES, AND EQUITY, CONTINUED

Compensated absences-- Employees of the Nation 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, 2016, totaled \$1,330,391 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 at a rate of 6 hours per pay period for 0-3 years tenure, 8 hours per pay period for 3-10 years tenure, 10 hours per pay period for 10 or more years tenure. 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 19.5% 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 2016.

Deferred outflows of resources-- In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The Nation had no deferred outflows as of September 30, 2016.

Deferred inflows of resources-- In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until then. The Nation had no deferred inflows as of September 30, 2016.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

ASSETS, LIABILITIES, AND EQUITY, CONTINUED

Equity Classifications-- The government-wide financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted and unrestricted. These classifications are defined as follows:

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 Net Position: This amount is restricted by external creditors, grantors, contributors, law or regulations of other governments, enabling legislation or constitutional provisions.

Unrestricted Net Position: All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

It is the Nation’s policy to first use restricted net position prior to the use of unrestricted net position when an expense is incurred for which both restricted and unrestricted net position are available.

Governmental fund equity is classified as fund balance. Fund balance is further classified as nonspendable, restricted, committed, assigned, and unassigned. These classifications are defined as:

Nonspendable Fund Balance: 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 Balance: The restricted fund balance classification should be reported when constraints placed on the use of resources are either a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance: 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).

Assigned Fund Balance: The assigned fund balance classification reflects amounts that are constrained by the Nation’s intent to be used for specific purposes, but meet neither the restricted or committed forms of constraint. Assigned funds cannot cause a deficit in unassigned fund balance. The Nation had no assigned fund balance as of September 30, 2016.

Unassigned Fund Balance: 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.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

ASSETS, LIABILITIES, AND EQUITY, CONTINUED

Equity Classifications, Continued

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.

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.

REVENUES, EXPENDITURES, AND EXPENSES

Revenue and Expenditure Recognition for Governmental Funds--Governmental fund revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Nation considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due. In the governmental fund financial statements, expenditures are reported by class and further reported by function.

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.

USE OF ESTIMATES

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures; accordingly, actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED**

ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

In February of 2015, GASB issued Statement No. 72, *Fair Value Measurement and Application* (“GASB 72”). The purpose of GASB 72 is to improve financial reporting by clarifying the definition of fair value for financial reporting purposes, establishing general principles for measuring fair value, providing additional fair value application guidance, and enhancing disclosures about fair value measurements.

In June of 2015, GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* (“GASB 76”). The purpose of GASB 76 is to identify, in the context of the current governmental financial reporting environment, the hierarchy of generally accepted accounting principles (“GAAP”). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. GASB 76 reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

The Nation’s management has concluded that adoption of GASB 72 and 76 had no significant impact on the Nation’s financial reporting process.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 27, 2017, which is the date the financial statements were available to be issued.

(2) **CASH AND INVESTMENTS**

Credit Risk – Bank 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.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(2) CASH AND INVESTMENTS, CONTINUED

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. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes to market interest rates. The Nation has a diversified portfolio to mitigate this risk.

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, 2016, the maturities of the Nation's investments subject to interest rate risk were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity (Years)</u>
Money market funds	\$ 16,696	-
Convertible bonds	2,167,995	3.77
Corporate bonds	10,986,675	2.52
Government-sponsored entities	6,283,537	1.61
U.S. treasuries	<u>7,362,163</u>	0.97
	<u>\$ 26,817,066</u>	
Portfolio weighted-average maturity		1.84

Credit Risk - Investments

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(2) CASH AND INVESTMENTS, CONTINUED

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:

<u>S & P / Moody's Rating</u>	<u>Must Not Exceed</u>	<u>But Not Less Than</u>
Government-sponsored entities	100%	25%
AAA/Aaa	100%	0%
AA/Aa	70%	0%
A/A	50%	0%
BBB/Baa	40%	0%
Lower than investment grade	10%	0%

The credit ratings of the Nation’s investments as of September 30, 2016, were as follows:

	<u>Total</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>B</u>	<u>CCC</u>	<u>Unrated</u>
Investment type							
Primary government							
Money market funds	\$ 16,696	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 16,696
Convertible bonds	2,167,995	-	-	-	297,522	245,003	1,625,470
Corporate bonds	10,986,675	1,548,968	2,508,552	6,929,155	-	-	-
Government-sponsored	6,283,537	6,283,537	-	-	-	-	-
U.S. treasuries	7,362,163	7,362,163	-	-	-	-	-
	<u>26,817,066</u>	<u>\$ 15,194,668</u>	<u>\$ 2,508,552</u>	<u>\$ 6,929,155</u>	<u>\$ 297,522</u>	<u>\$ 245,003</u>	<u>\$ 1,642,166</u>
Equities	<u>5,123,932</u>						
Total investments	<u>\$ 31,940,998</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.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(2) CASH AND INVESTMENTS, CONTINUED

The policy includes the following security type concentration limitations:

<u>Security Type</u>	<u>Must Not Exceed</u>	<u>But Not Less Than</u>
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, 2016, the balance of securities held by the third-party custodian was approximately \$32,000,000.

During the year ended September 30, 2016, the Nation incurred unrealized losses of approximately \$95,000 on one convertible bond investment due to default.

Fair Value Measurements

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets (level 1) and the lowest priority to unobservable inputs (level 3). The three levels of the fair value hierarchy are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets in active markets that the Nation has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets in active markets;
- Quoted prices for identical or similar assets in inactive markets;
- Inputs other than quoted prices that are observable for the asset;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(2) CASH AND INVESTMENTS, CONTINUED

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following is a description of the valuation methodologies used for assets measured at fair value:

Debt Securities – U.S. Agencies: Valued using pricing services, pricing models, or broker quotes with inputs including the securities' par values, interest rates, and maturity dates.

Equities: Valued at the closing price reported on the active market on which the individual securities are traded.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of fair values. Furthermore, although the Nation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following tables set forth by level, within the fair value hierarchy, the Nation's investments at fair value as of September 30, 2016:

	Level 1	Level 2	Level 3	Total
Investments				
Convertible bonds	\$ -	\$ 2,167,995	\$ -	\$ 2,167,995
Corporate bonds	-	10,986,675	-	10,986,675
Government-sponsored entities	-	6,283,537	-	6,283,537
U.S. treasuries	-	7,362,163	-	7,362,163
Equities	5,123,932	-	-	5,123,932
Total investments accounted for at fair value	\$ 5,123,932	\$ 26,800,370	\$ -	\$ 31,924,302
Money market funds *				16,696
Total Investments				\$ 31,940,998

* - Certain assets have been presented as part of investments on the statement of net position and the balance sheet – governmental funds but are not classified in the fair value hierarchy. The amounts in this table are intended to permit reconciliation of the fair value of investments in the fair value hierarchy to the amount presented in the statement of net position and the balance sheet – governmental funds.

OSAGE NATION**NOTES TO FINANCIAL STATEMENTS, CONTINUED****September 30, 2016**

(2) CASH AND INVESTMENTS, CONTINUED

The historical cost, gross unrealized gains, gross unrealized losses, and fair value of investment securities by major class of security at September 30, 2016 were as follows:

	Historical	Gross	Gross	
	Cost	Unrealized	Unrealized	Fair Value
		Gains	Losses	
Investments				
Cash equivalents	\$ 16,696	\$ -	\$ -	\$ 16,696
Convertible bonds	2,177,109	195,279	(204,393)	2,167,995
Corporate bonds	11,059,828	125,291	(198,444)	10,986,675
Government-sponsored entities	6,253,740	31,551	(1,754)	6,283,537
U.S. treasuries	7,322,727	41,648	(2,212)	7,362,163
Equities	4,814,400	698,232	(388,700)	5,123,932
Total investments	<u>\$ 31,644,500</u>	<u>\$ 1,092,001</u>	<u>\$ (795,503)</u>	<u>\$ 31,940,998</u>

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(3) CAPITAL ASSETS

	Primary Government				
	Balance at October 1, 2015	Additions	Disposals	Transfers	Balance at September 30, 2016
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 4,013,186	\$ 74,479,829	\$ -	\$ -	\$ 78,493,015
Construction in progress	17,990,735	10,109,219	-	(21,558,512)	6,541,442
Total capital assets not being depreciated	22,003,921	84,589,048	-	(21,558,512)	85,034,457
Capital assets being depreciated:					
Buildings and improvements	30,009,405	682,737	-	20,880,666	51,572,808
Furniture, fixtures and equipment	2,871,177	58,477	-	677,846	3,607,500
Vehicles	2,475,820	71,956	-	-	2,547,776
Total capital assets being depreciated	35,356,402	813,170	-	21,558,512	57,728,084
Less accumulated depreciation for:					
Buildings and improvements	5,914,505	1,939,667	-	-	7,854,172
Furniture, fixtures and equipment	1,124,365	342,630	-	-	1,466,995
Vehicles	1,936,413	213,273	-	-	2,149,686
Total Accumulated Depreciation	8,975,283	2,495,570	-	-	11,470,853
Capital assets being depreciated, net	26,381,119	(1,682,400)	-	21,558,512	46,257,231
Total governmental capital assets, net	\$ 48,385,040	\$ 82,906,648	\$ -	\$ -	\$ 131,291,688

Depreciation expense of \$2,495,570 is unallocated on the accompanying government-wide statement of activities.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(3) CAPITAL ASSETS, CONTINUED

		Primary Government		
		Balance at October 1, 2015	Additions	Disposals and Reclassifications
				Balance at September 30, 2016
Business-type activities				
Capital assets not being depreciated:				
Land		\$ 2,827,020	\$ -	\$ -
Total capital assets not being depreciated		2,827,020	-	-
Capital assets being depreciated:				
Buildings and improvements		14,101,629	250,000	-
Furniture, fixtures, and equipment		696,322	-	-
Vehicles		147,485	-	-
Total other capital assets at historical cost		14,945,436	250,000	-
Less Accumulated Depreciation for:				
Buildings and improvements		7,889,237	422,305	-
Furniture, fixtures, and equipment		354,156	65,574	-
Vehicles		147,485	-	-
Total accumulated depreciation		8,390,878	487,879	-
Capital assets being depreciated, net		6,554,558	(237,879)	-
Business-type activities capital assets, net		\$ 9,381,578	\$ (237,879)	\$ -

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(3) CAPITAL ASSETS, CONTINUED

	Discretely Presented Component Units				
	Balance at October 1, 2015	Additions	Disposals	Transfers	Balance at September 30, 2016
Capital assets not being depreciated:					
Land	\$ 16,517,613	\$ -	\$ -	\$ -	\$ 16,517,613
Construction in progress	6,429,922	4,635,996	-	(1,610,051)	9,455,867
Total capital assets not being depreciated	22,947,535	4,635,996	-	(1,610,051)	25,973,480
Capital assets being depreciated:					
Land improvements	9,049,583	173,493	-	-	9,223,076
Buildings and improvements	109,911,566	470,502	(68,457)	2,958	110,316,569
Furniture, fixtures and equipment	84,684,153	4,416,399	(6,637,414)	1,607,093	84,070,231
Vehicles	1,827,534	14,599	(6,919)	-	1,835,214
Total capital assets being depreciated	205,472,836	5,074,993	(6,712,790)	1,610,051	205,445,090
Less accumulated depreciation for:					
Land improvements	3,832,015	515,026	-	-	4,347,041
Buildings and improvements	21,911,553	5,628,456	(6,085)	1,419	27,535,343
Furniture, fixtures and equipment	64,359,986	8,178,032	(6,073,887)	(1,419)	66,462,712
Vehicles	1,223,691	219,239	(5,222)	-	1,437,708
Total Accumulated Depreciation	91,327,245	14,540,753	(6,085,194)	-	99,782,804
Capital assets being depreciated, net	114,145,591	(9,465,760)	(627,596)	1,610,051	105,662,286
Total governmental capital assets, net	\$ 137,093,126	\$ (4,829,764)	\$ (627,596)	\$ -	\$ 131,635,766

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(4) 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. The Nation's equity ownership position in these component units (Osage Casinos, ONES, LLC, Tallgrass, Osage, LLC, and Osage Home Health) are also 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, 2016, the Nation also has reflected its equity investment in Osage Casinos, ONES, LLC, Tallgrass, Osage, LLC, 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 \$111,342,001 at September 30, 2016. During the year ended September 30, 2016, the Nation recognized a decrease in equity in these owned component units of \$59,011,835.

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.

(5) COMPENSATED ABSENCES

Changes in compensated absences for the year ended September 30, 2016, were as follows:

	Balance at October 1, 2015	Additions	Deductions	Balance at September 30, 2016
Governmental Activities				
Compensated absences	\$ 990,855	\$ 1,330,391	\$ 990,855	\$ 1,330,391
Business-Type Activities				
Compensated absences	\$ 76,845	\$ 88,932	\$ 76,845	\$ 88,932

(6) 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, 2016, the interest rate was 1.57% on Note #1 and 2.37% on Note #2.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(6) LONG-TERM DEBT, CONTINUED

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

	Principal	Interest	Total
2017	\$ 1,000,000	\$ 84,396	\$ 1,084,396
2018	1,000,000	64,696	1,064,696
2019	875,000	45,243	920,243
2020	500,000	33,690	533,690
2021	500,000	25,840	525,840
2022-2024	1,375,000	30,582	1,405,582
	<u>\$ 5,250,000</u>	<u>\$ 284,447</u>	<u>\$ 5,534,447</u>

The following summarizes changes in the Nation's long-term debt for the year ended September 30, 2016:

Balance at October 1, 2015	Additions	Reductions	Balance at September 30, 2016
<u>\$ 6,250,292</u>	<u>\$ -</u>	<u>\$ 1,000,292</u>	<u>\$ 5,250,000</u>

On June 8, 2016, the Osage Nation Casino and the Nation entered into a \$175,000,000 loan agreement ("2016 Agreement") for the purposes of (1) the expansion/build project at the Tulsa location ("Tulsa project") and (2) the Nation's purchase of the Bluestem Ranch located in Osage County, Oklahoma ("Bluestem Ranch"). The 2016 Agreement allows for a \$67,000,000 Term Loan, a \$58,000,000 Advancing Term Loan, and a \$50,000,000 Revolving Loan.

The Term Loan was used for the purchase of the Bluestem Ranch. Principal payments of 1/28th of the original outstanding principal balance as of the closing date are due quarterly through September 30, 2018, or the substantial completion of the Tulsa project. After September 30, 2018, or substantial completion of the Tulsa project, principal payments equal to 1/40th of the original outstanding principal balance at the closing date are due quarterly through maturity.

The borrowings on the Term Loan were used to finance the purchase of the Bluestem Ranch held by the Nation. Under the 2016 Agreement, Osage Casinos has joint and several liability to repay the borrowings on the Term Loan, therefore, the Term Loan is reflected as a liability of Osage Casinos. As of September 30, 2016, borrowings under the Term Loan were \$66,699,898.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(6) LONG-TERM DEBT, CONTINUED

The Advancing Term Loan is to be used for the Tulsa project. No advances are allowed on the Advancing Term Loan until the Enterprise has spent \$42,000,000 on the Tulsa project. Advances are allowed through September 30, 2018, or substantial completion of the Tulsa project. Prepayments are not allowed prior to September 30, 2018, or substantial completion of the Tulsa project. Beginning on October 31, 2018, or upon substantial completion of the Tulsa project, principal payments equal to 1/40th of the original outstanding principal balance as of September 30, 2018, or the substantial completion of the Tulsa project, are due quarterly through maturity. As of September 30, 2016, there were no borrowings on the Advancing Term Loan.

The Revolving Loan is to be used for the Tulsa project and to provide for the general purposes of the Osage Casinos. Borrowings on the Revolving Loan cannot be used for distributions and cannot be used for general purposes until the Tulsa project is substantially complete, and all construction costs have been paid. Prepayments are not allowed prior to September 30, 2018, or substantial completion of the Tulsa project. As of September 30, 2016, there were no borrowings on the Revolving Loan.

The 2016 Agreement, which matures on June 30, 2021, is collateralized by substantially all the assets, net receipts, net revenues and rents from Osage Casinos. Under the terms of the 2016 Agreement, Osage Casinos is required to comply with certain financial covenants, including a fixed-charge coverage ratio and leverage ratio.

Interest on borrowings under the 2016 Agreement accrue interest at the LIBOR 30-day rate, plus a margin based on the leverage ratio as defined by the 2016 Agreement (1.77 percent at September 30, 2016). In addition, a commitment fee for the unused portion of the revolving loan commitment and the advancing term loan is payable quarterly. The commitment fee is computed as the product of a margin based on the leverage ratio as defined by the 2016 Agreement (0.20 percent at September 30, 2016) multiplied by the average daily unused Revolving Loan and Advancing Term Loan for the respective quarter in arrears.

The following is a summary of changes in the balance of Osage Casinos long-term debt for the year ended September 30, 2016:

Balance at October 1, 2015	Additions	Reductions	Balance at September 30, 2016
<u>\$ -</u>	<u>\$ 66,699,898</u>	<u>\$ -</u>	<u>\$ 66,699,898</u>

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(7) INTERFUND ACTIVITY

Interfund balances are summarized as follows:

	Receivable Fund		
	General Fund	Nonmajor Governmental Funds	Total
Payable Fund			
General Fund	\$ -	\$ (58,942)	\$ (58,942)
Dept. of Housing and Urban Dev.	924	-	924
Dept. of Health and Human Svcs.	19,189	-	19,189
Dept. of Interior	15,644	-	15,644
Dept. of Transportation	12,064	-	12,064
Dept. of Agriculture	161,566	-	161,566
Revenue Tax	11,314	-	11,314
	<u>\$ 220,701</u>	<u>\$ (58,942)</u>	<u>\$ 161,759</u>

All amounts will be repaid within the year.

Transfers are summarized as follows:

	Transfers In						Total
	General Fund	Dept of Housing and Urban Dev.	Dept. of Health and Human Services	Nonmajor Governmental Funds	Osage Properties	Non-major Proprietary	
Transfers Out							
General Fund	\$ -	\$ 250,000	\$ 333,099	\$ 284,481	\$ 380,038	\$ 2,778,360	\$ 4,025,978
Dept. of Interior	(17,501)	-	-	-	-	-	(17,501)
Dept. of Agriculture	(9,515)	-	-	-	-	-	(9,515)
Revenue Tax	(999,035)	-	-	-	-	-	(999,035)
	<u>\$ (1,026,051)</u>	<u>\$ 250,000</u>	<u>\$ 333,099</u>	<u>\$ 284,481</u>	<u>\$ 380,038</u>	<u>\$ 2,778,360</u>	<u>\$ 2,999,927</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 net residual for fiscal year 2016 that was transferred to the General Fund was \$1,505,155.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(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 \$225,000 annually and for aggregate claims with a minimum attachment point of \$15,755,517. The insurance contract runs December 1 through November 30 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 are responsible for maintaining separate insurance coverages for their respective employees.

The Nation's reported employee health claims liability of \$537,105 at September 30, 2016, 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.

The claims liability has been estimated based on open claims at September 30, 2016. 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	Balance at October 1, 2015	Additions	Deductions	Balance at September 30, 2016
2015	<u>\$ 1,150,798</u>	<u>\$ 3,986,259</u>	<u>\$ 4,593,824</u>	<u>\$ 543,233</u>
2016	<u>\$ 543,233</u>	<u>\$ 5,411,171</u>	<u>\$ 5,417,299</u>	<u>\$ 537,105</u>

(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. The health benefit plan offers 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 2016, the expenditures for member benefits were \$6,923,871. 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, 2016, was \$1,255,047 and is reported as committed fund balance in the General Fund.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(10) RISK MANAGEMENT

The Nation is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, injuries to employees (i.e., Workers' compensation), tort actions and environmental damage. 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.

(11) FUND EQUITY

	General Fund	HUD	DHHS	DOT	Other Gov't'l Funds	Total Gov't'l Funds
Nonspendable	\$ 580,361	\$ 6,958	\$ 97,397	\$ 1,996	\$ 1,570	\$ 688,282
Restricted						
Restricted for education	2,151,564	-	-	-	-	2,151,564
Restricted for collateral pledge	5,235,704	-	-	-	-	5,235,704
Restricted for grant purpose	-	305,167	-	-	-	305,167
Total restricted	7,387,268	305,167	-	-	-	7,692,435
Committed						
Program Purposes	-	-	-	208,977	-	208,977
Burial assistance	123,100	-	-	-	-	123,100
Education scholarships	3,214,328	-	-	-	-	3,214,328
Minerals Council programs	1,478,141	-	-	-	-	1,478,141
Health benefits	1,255,047	-	-	-	-	1,255,047
Restricted property purchase	58,553	-	-	-	-	58,553
Permanent Fund	30,000,000	-	-	-	-	30,000,000
Campus construction	322,540	-	-	-	-	322,540
Capital improvements	4,970,797	-	-	-	-	4,970,797
Capital - Fairfax Family Center	804,246	-	-	-	-	804,246
Osage War Memorial	144,737	-	-	-	-	144,737
Economic development	2,000,000	-	-	-	-	2,000,000
Fund/Court Fees	74,414	-	-	-	-	74,414
Total committed	44,445,903	-	-	208,977	-	44,654,880
Assigned						
Tribal supplements	-	-	-	-	267,679	267,679
Unassigned	4,766,496	-	-	-	-	4,766,496
Total fund balance	<u>\$ 57,180,028</u>	<u>\$ 312,125</u>	<u>\$ 97,397</u>	<u>\$ 210,973</u>	<u>\$ 269,249</u>	<u>\$ 58,069,772</u>

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.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(12) 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 \$795,412. 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.

(13) RETIREMENT PLAN

Governmental, Fiduciary Funds and Business-Type Activities

Effective March 19, 2010, the Nation entered into the Osage Nation 401(k) plan administered by John Hancock. Effective December 16, 2015, the Nation appointed a successor trustee, custodian and record-keeper for the Osage Nation 401(k) plan, Bank of Oklahoma Financial, NA. 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, 2016, were approximately \$672,000. Contributions made by the Nation to the 401(k) plan for the employees for the year ended September 30, 2016, were approximately \$480,000.

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, 2016, were approximately \$63,000. Contributions made by the Nation to the Congressional 401(k) plan for the year ended September 30, 2016, were approximately \$44,000.

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 \$1,380,539 and employee contributions were \$1,585,419 for the year ended September 30, 2016.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(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 2016, the Nation received \$2,456,352 in revenue under this compact.

(15) RELATED-PARTY TRANSACTIONS

Governmental Activities

During 2016, Osage Casinos distributed \$127,282,063 to the Nation, which includes the value of debt incurred and related costs on behalf the Nation. The Nation distributed \$2,500,000 and Osage, LLC distributed \$826,721 to Tallgrass as equity contributions.

Discretely Presented Component Units

During 2016, Osage Casinos made payments to agencies of the Nation and/or entities affiliated with the Nation as follows:

Osage Nation Tax Commission	\$	590,572
Osage Industrial Park		74,907
Osage Nation Gaming Commission		92,810
Osage Nation Communities		5,000
Osage Nation Foundation		6,000
	\$	<u>769,289</u>

(16) COMMITMENTS AND CONTINGENCIES

Federal Grants

In the normal course of operations, the Nation receives grant funds from various federal agencies. The grant programs are subject to audit by the agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. The Nation does not believe that any liability for reimbursement which may arise as the result of such audits will be material to the Nation's operations.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(16) COMMITMENTS AND CONTINGENCIES, CONTINUED

Litigation

The Nation is involved in litigation from time-to-time as part of its ongoing operations. As of September 30, 2016, the Nation is not aware of any pending litigation that would result in substantial losses.

Indian Gaming

Indian gaming activities fall under federal law determining the legality of any gaming devices used in the Nation's gaming operation. A loss of gaming revenue and potential fines could result should federal statutes be violated.

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 \$21,061,620 for the year ended September 30, 2016.

Construction Projects

The Nation began a construction project in fiscal year 2016 for the Osage Nation Fairfax Child Care and Senior Center. As of September 30, 2016, the Nation's total expenditures and accruals for construction totaling \$2,314,208 are included in construction in process in the government wide financial statements. The remaining commitment of tribal funds is reflected in the accompanying fund statements as committed fund balance (\$804,246).

The Nation entered into a \$5,723,305 construction contract for the construction of the Sky Lodge Estates through the Housing and Urban Development NAHASDA program. As of September 30, 2016, there was \$2,618,363 remaining to be completed under the contract.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(17) NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued new accounting pronouncements which will be effective for the Nation in subsequent years. A description of the new accounting pronouncements and the fiscal year in which they are effective are described below:

Fiscal Year Ended September 30, 2017:

In June of 2015, GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68* ("GASB 73"). The purpose of GASB 73 is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. GASB 73 results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regards to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement 68, *Accounting and Financial Reporting for Pensions*. The provisions of GASB 73 are effective for periods beginning after June 15, 2016. Earlier application is encouraged.

In June of 2015, GASB issued Statement No. 77, *Tax Abatement Disclosures* ("GASB 77"). The purpose of GASB 77 is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs in order to better assess (a) whether current-year revenues were sufficient to pay for current-year services, (b) compliance with finance-related legal or contractual requirements, (c) where a government's financial resources come from and how it uses them, and (d) financial position and economic condition and how they have changed over time. The provisions of GASB 77 are effective for periods beginning after December 15, 2015. Earlier application is encouraged.

In January of 2016, GASB issued Statement No. 80, *Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14* ("GASB 80"). The purpose of GASB 80 is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. GASB 80 amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. GASB 80 amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of GASB 39, *Determining Whether Certain Organizations Are Component Units*. The provisions of GASB 80 are effective for periods beginning after June 15, 2016. Earlier application is encouraged.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2016

(17) **NEW ACCOUNTING PRONOUNCEMENTS, CONTINUED**

Fiscal Year Ended September 30, 2018:

In March of 2017, GASB issued Statement No. 85, *Omnibus 2017* (“GASB 85”). The objective of GASB 85 is to address practice issues that have been identified during implementation and application of certain GASB Statements. GASB 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits). Specifically, GASB 85 addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and “negative” goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;
- Recognizing on-behalf payments for pensions or OPEB in employer financial statements.

The provisions of GASB 85 are effective for periods beginning after June 15, 2017. Earlier application is encouraged.

Fiscal Year Ended September 30, 2020:

In January 2017, GASB issued Statement No. 84, *Fiduciary Activities* (“GASB 84”). The objective of GASB 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. The provisions of GASB 84 are effective for periods beginning after December 15, 2018. Earlier application is encouraged.