

*Audited Financial Statements and
Supplementary Information*

**Osage Nation
Governmental Programs Department**

September 30, 2018

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

SEPTEMBER 30, 2018

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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 General Fund, each major fund, and the aggregate remaining fund information of Osage Nation Governmental Programs Department (the "Department") as of and for the year ended September 30, 2018, and the related notes to the financial statements, which collectively comprise the Department's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Department'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 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.

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 Department'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 Department'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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the General Fund, each major fund, and the aggregate remaining fund information of the Department as of September 30, 2018, 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 Information

As discussed in Note 1, the financial statements of the Department are intended to present the financial position and the changes in financial position of only that portion of the governmental activities, the General Fund, each major fund, and the aggregate remaining fund information of the Osage Nation that is attributable to the transactions of the Department. They do not purport to, and do not, present fairly the financial position of the Osage Nation as of September 30, 2018, and the changes in its financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2019, on our consideration of the Department'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 Department's internal control over financial reporting and compliance.

Rose Rock CPAs PLLC

Edmond, Oklahoma
June 28, 2019

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2018

This management's discussion and analysis (MD&A) of the Osage Nation Governmental Programs Department's (the Department) fiscal year 2018 financial statements is provided to give an overview of the Department's financial activities for fiscal year 2018. The information in this MD&A should be read in conjunction with the Department's financial statements, including the notes to the financial statements.

Financial Highlights

- The assets of the Department exceeded its liabilities at the close of fiscal year 2018 by \$192,191,572. Of this amount, \$51,610,504 represents unrestricted net position, which may be used to meet the Department's ongoing obligations to citizens and creditors.
- The Department's total net position increased \$3,970,094 from the prior fiscal year.
- The Department's governmental funds reported combined fund balances of \$51,084,749, a decrease of \$6,062,905 from the prior year. The decrease in fund equity is primarily related to net cash transfers to the proprietary funds and the component units of the Nation, as well increased debt service payments of \$3,250,000.
- The Department maintains a permanent reserve of \$30,000,000. The funds cannot be spent without action by the Osage Nation Congress.

Overview of the Financial Statements

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

1. Government-wide financial statements
2. Fund financial statements
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 Department's finances, similar to private sector business financial statements. The statement of net position presents information on all of the Department'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 Department is improving or deteriorating.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2018

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 Department only present the governmental activities. Most of the Department'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.

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 Department utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The fund financial statements provide information about the Department's most significant funds, not the Department as a whole. The funds of the Department are divided into two categories:

- **Governmental funds** – Most of the services provided by the Department 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 Department'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.
- **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 Department presents the internal service funds, which are used to report activities that provide goods or services to all of the Department's programs. There is one internal service fund which is used to provide information about the Department'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 20.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2018

Government-Wide Financial Analysis

As of September 30, 2018, the Department's combined net position was \$192,191,572. Total assets increased approximately \$10,765,000 (5%) and total liabilities increased by approximately \$6,795,000 (25%). The net position of governmental activities increased approximately \$3,970,000 (2%) in 2018.

The unrestricted net position (\$51,610,504) is available to meet future obligations of the Department.

Changes in Net Position of Department – The Department's program revenues decreased approximately \$1,448,000 (5%) in 2018. The decrease was primarily a result of the decreased housing construction projects under the HUD programs.

Total expenses for the governmental activities increased approximately \$3,685,000 (5%) to approximately \$78,395,000. The Department'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 approximately \$77,000 (.4%), remaining consistent overall with the prior year.
- Health and human services expenses increased approximately \$2,973,000 (11%) primarily due to the the health clinic programmatic increases as well as increases in the health benefit plan.

Below is a summary of the Statement of Net Position at September 30, 2018 and 2017:

	Governmental Activities	
	2018	2017
Current and other assets	\$ 31,566,858	\$ 26,406,866
Capital assets	140,680,150	135,327,868
Investments and certificates of dep.	54,251,692	53,998,677
Total assets	<u>226,498,700</u>	<u>215,733,411</u>
Current and other liabilities	<u>34,307,128</u>	<u>27,511,933</u>
Total liabilities	<u>34,307,128</u>	<u>27,511,933</u>
Net position		
Net investment in capital assets	140,442,831	130,881,363
Restricted	138,237	5,606,073
Unrestricted	<u>51,610,504</u>	<u>51,734,042</u>
Total net position	<u>\$ 192,191,572</u>	<u>\$ 188,221,478</u>

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2018

Below is a summary of changes in net position for 2018 compared to 2017:

	Governmental Activities	
	2018	2017
Revenues		
Program revenues		
Charges for services	\$ 7,576,941	\$ 6,780,153
Operating grants/contributions	21,796,080	23,981,964
Capital grants/contributions	2,120,820	2,179,531
General revenues		
Interest expense	(14,808)	(102,402)
Investment income (loss)	1,430,029	1,879,983
Tax revenue	2,191,414	2,126,797
Indirect cost recoveries	7,084,429	6,432,281
Gaming distributions received	45,000,000	40,000,000
Other	1,336,043	1,295,681
	<u>88,520,948</u>	<u>84,573,988</u>
Expenses		
General government	20,664,145	20,587,199
Education	13,712,949	13,336,960
Health and human services	29,529,828	26,556,575
Community services	609,349	583,586
Culture and language	3,398,673	3,125,584
Environmental management	1,594,838	1,665,536
Housing services	1,526,364	1,921,135
Public safety	2,813,384	2,735,035
Public works	1,282,379	1,283,716
Economic development	158,309	-
Unallocated depreciation	3,105,316	2,914,776
	<u>78,395,534</u>	<u>74,710,102</u>
Changes before transfers	10,125,414	9,863,886
Distributions to related parties	(2,596,500)	(1,000,000)
Transfers	<u>(3,558,820)</u>	<u>(2,628,065)</u>
	3,970,094	6,235,821
Net position, beginning of year	<u>188,221,478</u>	<u>181,985,657</u>
Net position, end of year	<u>\$ 192,191,572</u>	<u>\$ 188,221,478</u>

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2018

Governmental Funds Financial Analysis

Governmental funds have a combined fund balance of approximately \$51,084,749, down approximately \$6,063,000 (11%) from 2017. There is an unassigned fund balance of approximately 4% of the combined fund balance. A positive unassigned fund balance means it is available for spending at the Department's discretion. Other categories of fund balance include restricted (\$138,237), which represents balances restricted by external agreements, nonspendable (\$723,695), assigned (\$421,909) and committed (\$47,868,149), 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 Department. The General Fund's fund balance decreased approximately \$5,917,000 to approximately \$50,182,000. Of this amount, there is an unassigned fund balance which represents approximately 4% of the total fund balance. The remaining fund balance is classified as committed (\$47,667,187) and nonspendable (\$581,638). Of the committed fund balance total, \$30,000,000 is committed as a Permanent Fund which may not be spent without legislative action by the Osage Nation Congress. The Permanent Fund represents approximately 60% of General Fund balance. The decrease in fund balance is primarily due to increased transfers to component units as well as the payoff of the construction note payable agreement of \$4,250,000.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2018

Proprietary Funds Financial Analysis

Governmental proprietary funds had a combined net position of approximately \$1,564,000, an increase of approximately \$467,000 from 2017.

Budgetary Highlights

The Department 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 2018 actual expenditures compared to budget are shown below:

General Fund 2018			
	Actual	Budget	Variance
Revenues and Gaming Distributions			
Tax revenue	\$ 2,191,414	\$ 2,200,000	\$ (8,586)
Indirect cost recoveries	7,084,429	6,728,958	355,471
Investment income (loss)	1,254,389	850,000	404,389
Program and other revenue	4,494,200	4,185,793	308,407
Casino distribution	<u>45,000,000</u>	<u>45,000,000</u>	<u>-</u>
Total	<u>\$ 60,024,432</u>	<u>\$ 58,964,751</u>	<u>\$ 1,059,681</u>
Expenditures			
Community services	\$ 563,047	\$ 587,304	\$ 24,257
Culture and language	3,391,646	4,689,518	1,297,872
Education	10,386,444	10,495,779	109,335
Environmental management	533,399	546,011	12,612
General government	20,607,814	20,816,484	208,670
Health and human services	11,401,056	12,273,399	872,343
Housing services	287,024	292,250	5,226
Public safety	1,238,883	1,613,714	374,831
Economic development	158,309	158,309	-
Capital outlay	5,449,666	5,050,466	(399,200)
Debt service – principal	4,250,000	4,250,000	-
Debt service – interest	<u>14,808</u>	<u>14,808</u>	<u>-</u>
Total	<u>\$ 58,282,096</u>	<u>\$ 60,788,042</u>	<u>\$ 2,505,946</u>

The Department 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 2018 includes the balances in these funds at the end of 2017.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

MANAGEMENT’S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2018

Capital Assets and Debt Administration

Capital Assets – The Department has approximately \$140,680,000 net investment in capital assets at the end of fiscal year 2018. This represents a net increase of approximately \$5,352,000 over the prior year. The most significant increases are related to construction the Hominy Village Square, Hominy Wellness Center, as well as land buy back.

	Governmental Activities	
	2018	2017
Land	\$ 79,653,016	\$ 78,627,729
Buildings	52,249,208	51,556,378
Equipment	2,073,793	2,197,301
Vehicles	366,968	329,373
Construction in progress	6,337,165	2,617,087
	<u>\$ 140,680,150</u>	<u>\$ 135,327,868</u>

Economic Factors and Next Year’s Budget

The local economy remains relatively stable with some growth expected in 2019. The strong growth of the Department’s gaming enterprise should aid in revenue growth for 2019.

Contacting the Department’s Financial Management

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

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

STATEMENT OF NET POSITION

September 30, 2018

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 26,698,928
Certificates of deposit	19,609,151
Investments	34,642,541
Due from other governments	2,383,607
Accounts receivable, net	1,162,767
Prepaid expenses and other	1,147,513
Inventory	174,043
Capital assets:	
Land and construction in progress	85,990,161
Other capital assets, net	<u>54,689,989</u>
Total assets	<u><u>\$ 226,498,700</u></u>
Liabilities	
Accounts payable	\$ 3,260,920
Accrued liabilities	1,377,596
Due to other funds - internal balances	471,426
Retainage payable	237,319
Health claims liability	117,902
Other liabilities	678,361
Unearned grant revenue	27,025,997
Compensated absences	<u>1,137,607</u>
Total liabilities	<u><u>\$ 34,307,128</u></u>
Net position	
Net investment in capital assets	\$ 140,442,831
Restricted for:	
Program services	138,237
Unrestricted	<u>51,610,504</u>
Total net position	<u><u>\$ 192,191,572</u></u>

See accompanying notes to financial statements.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

STATEMENT OF ACTIVITIES

Year ended September 30, 2018

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
Governmental activities:					
General government	\$ 20,664,145	\$ 1,675,423	\$ 479,616	\$ -	\$ (18,509,106)
Education	13,712,949	-	2,721,954	-	(10,990,995)
Health and human services	29,529,828	4,542,852	14,302,142	-	(10,684,834)
Community services	609,349	-	46,302	-	(563,047)
Culture and language	3,398,673	1,293,332	7,027	-	(2,098,314)
Environmental management	1,594,838	-	1,094,988	-	(499,850)
Housing services	1,526,364	63,949	2,157,695	-	695,280
Public safety	2,813,384	1,385	986,356	-	(1,825,643)
Public works	1,282,379	-	-	2,120,820	838,441
Economic development	158,309	-	-	-	(158,309)
Unallocated depreciation	3,105,316	-	-	-	(3,105,316)
Total governmental activities	<u>78,395,534</u>	<u>7,576,941</u>	<u>21,796,080</u>	<u>2,120,820</u>	<u>(46,901,693)</u>
General revenues:					
					1,430,029
					2,191,414
					(14,808)
					1,336,043
					7,084,429
					45,000,000
					(2,596,500)
					(3,558,820)
					<u>50,871,787</u>
					3,970,094
					<u>188,221,478</u>
					<u>\$ 192,191,572</u>

See accompanying notes to financial statements.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

BALANCE SHEET--GOVERNMENTAL FUNDS

September 30, 2018

	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	\$ 13,959,220	\$ 765,966	\$ 7,333,374	\$ 2,034,398	\$ 844,513	\$ -	\$ -	\$ 24,937,471
Certificates of deposit	2,841,327	-	-	-	16,767,824	-	-	19,609,151
Investments	34,642,541	-	-	-	-	-	-	34,642,541
Accounts receivable, net	754,658	-	244,644	161,651	-	393	1,421	1,162,767
Due from other funds	82,605	-	-	-	-	-	-	82,605
Due from other governments	16,735	145,415	1,261,947	106,305	-	540,825	312,380	2,383,607
Inventory	-	-	174,043	-	-	-	-	174,043
Prepaid expenses and other assets	581,638	7,069	505,574	11,445	2,379	10,768	1,664	1,120,537
Restricted certificate of deposit	-	-	-	-	-	-	-	-
Total assets	<u>\$ 52,878,724</u>	<u>\$ 918,450</u>	<u>\$ 9,519,582</u>	<u>\$ 2,313,799</u>	<u>\$ 17,614,716</u>	<u>\$ 551,986</u>	<u>\$ 315,465</u>	<u>\$ 84,112,722</u>
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	\$ 1,385,922	\$ 145,065	\$ 734,522	\$ 105,509	\$ 195,855	\$ 488,586	\$ 118,324	\$ 3,173,783
Retainage payable	200,104	33,219	-	-	3,996	-	-	237,319
Accrued liabilities	816,804	23,019	324,717	85,671	20,175	34,537	53,559	1,358,482
Unearned grant revenue	128,986	-	7,956,080	1,730,215	17,179,418	-	31,298	27,025,997
Due to other funds	-	58,804	384,763	41,222	11,931	28,863	28,448	554,031
Other accrued liabilities	165,324	513,037	-	-	-	-	-	678,361
Total liabilities	2,697,140	773,144	9,400,082	1,962,617	17,411,375	551,986	231,629	33,027,973
Fund balances:								
Nonspendable	581,638	7,069	119,500	11,445	2,379	-	1,664	723,695
Restricted	-	138,237	-	-	-	-	-	138,237
Committed	47,667,187	-	-	-	200,962	-	-	47,868,149
Assigned	-	-	-	339,737	-	-	82,172	421,909
Unassigned	1,932,759	-	-	-	-	-	-	1,932,759
Total fund balances	<u>50,181,584</u>	<u>145,306</u>	<u>119,500</u>	<u>351,182</u>	<u>203,341</u>	<u>-</u>	<u>83,836</u>	<u>51,084,749</u>
Total liabilities and fund balances	<u>\$ 52,878,724</u>	<u>\$ 918,450</u>	<u>\$ 9,519,582</u>	<u>\$ 2,313,799</u>	<u>\$ 17,614,716</u>	<u>\$ 551,986</u>	<u>\$ 315,465</u>	<u>\$ 84,112,722</u>

See accompanying notes to financial statements.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

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

September 30, 2018

Total government fund balance	\$ 51,084,749
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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	158,171,095	
Accumulated depreciation	<u>(17,490,945)</u>	140,680,150

Compensated balances are not due and payable in the current period and therefore are not reported in the funds.	(1,137,607)
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Internal service funds are used by the Department to charge the costs of certain activities, such as insurance, to individual funds; the assets and liabilities of internal service funds are included in governmental activities on the statement of net position.

<u>1,564,280</u>

Net position for governmental activities	<u>\$ 192,191,572</u>
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See accompanying notes to financial statements.

OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT

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

Year ended September 30, 2018

	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	\$ -	\$ 2,157,695	\$ 10,893,257	\$ 3,195,851	\$ 2,120,820	\$ 4,372,234	\$ 1,177,043	\$ 23,916,900
Tobacco tax revenue	2,191,414	-	-	-	-	-	-	2,191,414
Program revenue	3,329,454	63,949	4,158,752	570	-	24,216	-	7,576,941
Indirect cost revenue	7,084,429	-	-	-	-	-	-	7,084,429
Investment revenue	1,254,389	2,362	15,295	-	157,983	-	-	1,430,029
Other	1,164,746	-	10,500	160,797	-	-	-	1,336,043
Total revenues	15,024,432	2,224,006	15,077,804	3,357,218	2,278,803	4,396,450	1,177,043	43,535,756
Expenditures:								
General government	20,607,814	-	-	487,048	-	-	-	21,094,862
Education	10,386,444	-	2,378,835	752,198	-	-	195,472	13,712,949
Health and human services	11,401,056	-	13,236,930	425,893	-	3,977,401	488,548	29,529,828
Community services	563,047	-	46,302	-	-	-	-	609,349
Culture and language	3,391,646	-	-	7,027	-	-	-	3,398,673
Environmental management	533,399	-	-	532,970	-	-	528,469	1,594,838
Housing services	287,024	1,239,340	-	-	-	-	-	1,526,364
Public safety	1,238,883	-	-	1,574,501	-	-	-	2,813,384
Public works	-	-	-	-	1,282,379	-	-	1,282,379
Economic development	158,309	-	-	-	-	-	-	158,309
Capital outlay	5,449,666	1,359,367	71,610	56,658	998,604	521,693	-	8,457,598
Debt service								
Principal	4,250,000	-	-	-	-	-	-	4,250,000
Interest	14,808	-	-	-	-	-	-	14,808
Total expenditures	58,282,096	2,598,707	15,733,677	3,836,295	2,280,983	4,499,094	1,212,489	88,443,341
Revenues over (under) expenditures	(43,257,664)	(374,701)	(655,873)	(479,077)	(2,180)	(102,644)	(35,446)	(44,907,585)
Other financing sources (uses):								
Transfers in	43,781,904	250,200	634,273	520,201	-	102,644	-	45,289,222
Transfers out	(48,845,207)	-	-	-	-	-	(2,835)	(48,848,042)
Distributions to related parties	(2,596,500)	-	-	-	-	-	-	(2,596,500)
Gaming distributions	45,000,000	-	-	-	-	-	-	45,000,000
Total other financing sources (uses)	37,340,197	250,200	634,273	520,201	-	102,644	(2,835)	38,844,680
Net changes in fund balances	(5,917,467)	(124,501)	(21,600)	41,124	(2,180)	-	(38,281)	(6,062,905)
Fund balance, beginning of year	56,099,051	269,807	141,100	310,058	205,521	-	122,117	57,147,654
Fund balance, end of year	\$ 50,181,584	\$ 145,306	\$ 119,500	\$ 351,182	\$ 203,341	\$ -	\$ 83,836	\$ 51,084,749

See accompanying notes to financial statements.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

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

Year ended September 30, 2018

Net changes in fund balances--total governmental funds \$ (6,062,905)

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	8,457,598	
Depreciation expense	<u>(3,105,316)</u>	5,352,282

Internal service funds are used by the Department 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

467,341

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

4,250,000

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>(36,624)</u>	
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Change in net position of governmental activities	<u>\$ 3,970,094</u>
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See accompanying notes to financial statements.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

STATEMENT OF NET POSITION--PROPRIETARY FUNDS

September 30, 2018

	<u>Governmental Activities Internal Service Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ 1,761,457
Prepaid expenses	<u>26,976</u>
Total current assets	<u>1,788,433</u>
Total assets	<u><u>\$ 1,788,433</u></u>
Liabilities	
Current liabilities:	
Accounts payable	\$ 87,137
Accrued liabilities	19,114
Health claims liability	<u>117,902</u>
Total liabilities	<u><u>\$ 224,153</u></u>
Net position	
Unrestricted	<u>\$ 1,564,280</u>
Total net position	<u><u>\$ 1,564,280</u></u>

See accompanying notes to financial statements.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

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

Year ended September 30, 2018

	Governmental Activities
	Internal Service Fund
Operating revenues:	
Claims cost recovery	\$ 4,442,257
Total operating revenues	4,442,257
Operating expenses:	
Claims incurred	3,974,916
Total operating expenses	3,974,916
Operating income	467,341
Net position at beginning of year	1,096,939
Net position at end of year	\$ 1,564,280

See accompanying notes to financial statements.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

STATEMENT OF CASH FLOWS--PROPRIETARY FUNDS

Year ended September 30, 2018

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 4,442,257
Cash paid for claims	<u>(3,900,600)</u>
Net cash provided by operating activities	541,657
Net increase in cash and cash equivalents	541,657
Cash and cash equivalents at beginning of year	<u>1,219,800</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,761,457</u></u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 467,341
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Accrued liabilities	<u>74,316</u>
Net cash provided by operating activities	<u><u>\$ 541,657</u></u>

See accompanying notes to financial statements.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS

September 30, 2018

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Osage Nation Governmental Programs Department (the “Department”) is an organizational unit of the Osage Nation (the “Nation”), formerly known as the Osage Tribe of Indians of Oklahoma. The Nation 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 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 Department and are not reflected in the accompanying financial statements.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(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 Department 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 Department's primary government for financial reporting purposes. The primary government includes:

- All governmental offices and departments of the Nation.

BASIS OF PRESENTATION

Financial Statements

The basic financial statements of the Department include the government-wide financial statements. The government-wide financial statements focus on the Department as a whole, while additional and detailed information about the Department's major governmental activities is reported in the fund financial statements.

Government-Wide Financial Statements

The government-wide statement of net position and statement of activities display information about the Department's primary government.

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, 2018, distributions from the Osage Casinos amounted to \$45,000,000.

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 Department's policy to use restricted resources first, then unrestricted resources as they are needed.

OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

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

BASIS OF PRESENTATION, CONTINUED

Fund Financial Statements

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

Governmental Fund Types

- **General Fund** – The Department 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 Department reports the following major governmental funds:

- **General Fund** – The General Fund is the Department'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 Department to provide housing programs to tribal members.
 - **Department of Health and Human Services** – This fund accounts for the resources received by the Department to provide health and welfare programs to tribal members.
 - **Department of Interior** – This fund accounts for the resources received by the Department to provide social service and general assistance programs to tribal members.
 - **Department of Transportation** – This fund accounts for the resources received by the Department to provide construction of roads and other transportation matters to tribal members.
 - **Department of Agriculture** – This fund accounts for the resources received by the Department to provide nutrition and food to tribal members.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

BASIS OF PRESENTATION, CONTINUED

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 Department on a cost reimbursement basis.

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 method 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 Department 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 Department 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.

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

OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

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

ASSETS, LIABILITIES, AND EQUITY

Cash and cash equivalents-- The Department has classified as cash equivalents all highly liquid investments with an original maturity of three months or less. At September 30, 2018, cash equivalents consisted primarily of short-term certificates of deposit and U.S. Treasury overnights.

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.

Accounts receivable-- The Department records normal business receivables as well as loans to tribal employees and travel advances. An allowance of approximately \$246,000 has been recorded to allow for estimated uncollectible health clinic billings.

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, 2018, amounted to \$2,426,565.

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.

Inventory-- Inventories are valued at average cost. Cost is determined using the first-in, first-out (FIFO) average cost 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.

OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(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		
Buildings and improvements	\$ 10,000	25
Furniture, fixtures and equipment	\$ 10,000	10
Vehicles and mobile equipment	\$ 10,000	5

The Department 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 Department had no impaired assets at September 30, 2018.

Compensated absences-- Employees of the Department accrue vested paid time off (PTO) at a variable rate based on years of service. It is the Department'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, 2018, totaled \$1,137,607 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.

OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

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

ASSETS, LIABILITIES, AND EQUITY, CONTINUED

Income taxes-- The Department, 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 20.66% 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 2018.

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 Department had no deferred outflows as of September 30, 2018.

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 Department had no deferred inflows as of September 30, 2018.

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 Department’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.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

ASSETS, LIABILITIES, AND EQUITY, CONTINUED

Equity Classifications, Continued

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 Department's highest level of decision-making authority, the Osage Nation Congress. Commitments may be changed or lifted only by the Department 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 Department'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.

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.

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.

OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

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

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 Department 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, 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.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through June 28, 2019, 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 Department's deposits may not be returned to it. The Department'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 Department's name and not exposed to custodial credit risk.

OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(2) **CASH AND INVESTMENTS, CONTINUED**

Investments

The Department adopted an investment policy to govern the administration of the Department's investment portfolio assets. The Department'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 Department. 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 Department has a diversified portfolio to mitigate this risk.

The Department'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, 2018, the maturities of the Department's investments subject to interest rate risk were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Average Maturity (Years)</u>
Cash and money market funds	\$ 6,924,321	-
U.S. treasuries	<u>27,718,220</u>	0.75
	<u>\$ 34,642,541</u>	
Portfolio weighted-average maturity		0.60

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.

The Department'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 Department'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.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(2) CASH AND INVESTMENTS, CONTINUED

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 Department's investments as of September 30, 2018, were as follows:

	<u>Total</u>	<u>AA</u>	<u>Unrated</u>
Investment type:			
Primary government			
Cash and money market funds	\$ 6,924,321	\$ -	\$ 6,924,321
U.S. treasuries	27,718,220	27,718,220	-
Total investments	<u>\$ 34,642,541</u>	<u>\$ 27,718,220</u>	<u>\$ 6,924,321</u>

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 Department 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, 2018, the balance of securities held by the third-party custodian was approximately \$34,643,000.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(2) CASH AND INVESTMENTS, CONTINUED

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 Department 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.

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.

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 Department 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.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(2) CASH AND INVESTMENTS, CONTINUED

Fair Value Measurements, Continued

The following tables set forth by level, within the fair value hierarchy, the Department's investments at fair value as of September 30, 2018:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
U.S. treasuries	\$ -	\$ 27,718,220	\$ -	\$ 27,718,220
Total investments accounted for at				
fair value	\$ -	\$ 27,718,220	\$ -	\$ 27,718,220
Cash and money market funds *				6,924,321
Total Investments				<u>\$ 34,642,541</u>

* - 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.

The historical cost, gross unrealized gains, gross unrealized losses, and fair value of investment securities by major class of security at September 30, 2018 were as follows:

	<u>Historical Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Investments				
Cash and cash equivalents	\$ 6,924,321	\$ -	\$ -	\$ 6,924,321
U.S. treasuries	27,696,088	22,132	-	27,718,220
Total investments	<u>\$ 34,620,409</u>	<u>\$ 22,132</u>	<u>\$ -</u>	<u>\$ 34,642,541</u>

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(3) CAPITAL ASSETS

	Primary Government				
	Balance at October 1, 2017	Additions	Disposals	Transfers	Balance at September 30, 2018
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 78,627,729	\$ 969,787	\$ -	\$ 55,500	\$ 79,653,016
Construction in progress	2,617,087	6,743,988	-	(3,023,930)	6,337,145
Total capital assets not being depreciated	81,244,816	7,713,775	-	(2,968,430)	85,990,161
Capital assets being depreciated:					
Buildings and improvements	61,735,507	198,298	-	2,968,430	64,902,235
Furniture, fixtures and equipment	4,051,106	356,831	-	-	4,407,937
Vehicles	2,682,068	188,694	-	-	2,870,762
Total capital assets being depreciated	68,468,681	743,823	-	2,968,430	72,180,934
Less accumulated depreciation for:					
Buildings and improvements	10,179,129	2,473,898	-	-	12,653,027
Furniture, fixtures and equipment	1,853,805	480,319	-	-	2,334,124
Vehicles	2,352,695	151,099	-	-	2,503,794
Total Accumulated Depreciation	14,385,629	3,105,316	-	-	17,490,945
Capital assets being depreciated, net	54,083,052	(2,361,493)	-	2,968,430	54,689,989
Total governmental capital assets, net	\$135,327,868	\$ 5,352,282	\$ -	\$ -	\$ 140,680,150

Depreciation expense of \$3,105,316 is unallocated on the accompanying government-wide statement of activities.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(4) COMPENSATED ABSENCES

Changes in compensated absences for the year ended September 30, 2018, were as follows:

	Balance at October 1, 2017	Additions	Deductions	Balance at September 30, 2018
Governmental Activities				
Compensated absences	\$ 1,100,983	\$ 1,137,607	\$ 1,100,983	\$ 1,137,607

(5) LONG-TERM DEBT

In 2014, the Department entered into borrowing agreements with Bank of Oklahoma totaling \$10,000,000 to partially fund the Nation's 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, 2017, the interest rate was 2.287% on Note #1 and 3.087% on Note #2. Effective November 7, 2017, the notes were paid in full.

The following summarizes changes in the Department's long-term debt for the year ended September 30, 2018:

Balance at October 1, 2017	Additions	Reductions	Balance at September 30, 2018
\$ 4,250,000	\$ -	\$ 4,250,000	\$ -

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(6) INTERFUND ACTIVITY

Interfund balances are summarized as follows:

Payable (Receivable) Fund	
General Fund	\$ 82,605
Dept. of Housing and Urban Dev.	(58,804)
Dept. of Health and Human Svcs.	(384,763)
Dept. of Interior	(41,222)
Dept. of Transportation	(11,931)
Dept. of Agriculture	(28,863)
Nonmajor governmental funds	(28,448)
Proprietary funds	471,426
	<u>\$ -</u>

All amounts will be repaid within the year.

Transfers are summarized as follows:

Transfer In (Out)	
General Fund	\$ (5,063,303)
Dept. of Housing and Urban Dev.	250,200
Dept. of Health and Human Svcs.	634,273
Dept. of Interior	520,201
Dept. of Agriculture	102,644
Nonmajor governmental funds	(2,835)
Proprietary funds:	
Osage Properties	629,026
Revenue Tax	(1,169,012)
Nonmajor proprietary	4,098,806
	<u><u>\$ -</u></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 2018 that was transferred to the General Fund was \$1,169,012.

OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(7) **SELF-INSURANCE**

The Department is self-insured up to certain limits for employee group health claims. The Department has purchased stop-loss insurance, which will reimburse the Department for individual claims in excess of \$225,000 annually and for aggregate claims with a minimum attachment point of \$11,375,449. The insurance contract runs October 1 through September 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 Department's reported employee health claims liability of \$117,902 at September 30, 2018, 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, 2018. The Department 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	Additions	Deductions	Balance at September 30
2018	\$ 119,692	\$ 3,974,916	\$ 3,976,706	\$ 117,902
2017	\$ 537,105	\$ 3,254,635	\$ 3,672,048	\$ 119,692

(8) **OSAGE NATION MEMBERS' HEALTH BENEFITS**

The Department 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 2018, the expenditures for member benefits were \$9,112,874. The Department 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 Department. 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, 2018, was \$1,838,015 and is reported as committed fund balance in the General Fund.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(9) FUND EQUITY

	General Fund	HUD	DHHS	DOI	DOT	Other Gov't Funds	Total Gov't Funds
Nonspendable	\$ 581,638	\$ 7,069	\$ 119,500	\$ 11,445	\$ 2,379	\$ 1,664	\$ 723,695
Restricted							
Restricted for grant purpose	-	138,237	-	-	-	-	138,237
Total restricted	-	138,237	-	-	-	-	138,237
Committed							
Program Purposes	-	-	-	-	200,962	-	200,962
Burial assistance	13,014	-	-	-	-	-	13,014
Education scholarships	1,795,810	-	-	-	-	-	1,795,810
Regional gathering	21,780	-	-	-	-	-	21,780
Matching grant	961,118	-	-	-	-	-	961,118
Commercial property	1,125,943	-	-	-	-	-	1,125,943
Minerals Council programs	1,722,747	-	-	-	-	-	1,722,747
Health benefits	1,838,015	-	-	-	-	-	1,838,015
Donations	2,346,220	-	-	-	-	-	2,346,220
Restricted property purchase	85,124	-	-	-	-	-	85,124
Permanent fund	30,000,000	-	-	-	-	-	30,000,000
Retained revenue	1,966,968	-	-	-	-	-	1,966,968
Tax relief fund	1,602,374	-	-	-	-	-	1,602,374
Campus construction	165,072	-	-	-	-	-	165,072
Capital improvements	1,662,987	-	-	-	-	-	1,662,987
Museum	287,026	-	-	-	-	-	287,026
Osage War Memorial	821,008	-	-	-	-	-	821,008
Freeman Monument	10,000	-	-	-	-	-	10,000
Economic development	950,000	-	-	-	-	-	950,000
Code fund	29,279	-	-	-	-	-	29,279
Bar Association	52,675	-	-	-	-	-	52,675
Fund/court fees	210,027	-	-	-	-	-	210,027
Total committed	47,667,187	-	-	-	200,962	-	47,868,149
Assigned							
Tribal supplements	-	-	-	339,737	-	82,172	421,909
Unassigned	1,932,759	-	-	-	-	-	1,932,759
Total fund balance	<u>\$50,181,584</u>	<u>\$ 145,306</u>	<u>\$ 119,500</u>	<u>\$ 351,182</u>	<u>\$ 203,341</u>	<u>\$ 83,836</u>	<u>\$ 51,084,749</u>

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(9) FUND EQUITY, CONTINUED

The Department established a Permanent Fund through Legislation (ONCA 12-85). The Permanent Fund is invested in accordance with the Department's approved investment policy, and investment earnings are available for general appropriations. The Department may not borrow, encumber or appropriate funds from the Permanent Fund except for expenditure on direct services for Osage Nation membership.

(10) RISK MANAGEMENT

The Department 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 Department has no coverage for potential losses due to environmental damages. The amounts of any potential future losses for environmental damages are unknown.

(11) DEFICIT FUND BALANCE

The Department appropriates funds from the Treasury to fund operations and programs of the Department. Although some individual programs within the General Fund reflect a small deficit fund balance, the Department's total General Fund has no deficit balance to report.

(12) RETIREMENT PLAN

Effective March 19, 2010, the Department entered into the Osage Nation 401(k) plan administered by John Hancock. Effective December 16, 2015, the Department appointed a successor trustee, custodian and record-keeper for the Osage Nation 401(k) plan, Bank of Oklahoma Financial, NA. The Department 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, 2018, were approximately \$967,000. Contributions made by the Department to the 401(k) plan for the employees for the year ended September 30, 2018, were approximately \$783,000.

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, 2018, were approximately \$61,000. Contributions made by the Nation to the Congressional 401(k) plan for the year ended September 30, 2018, were approximately \$42,000.

**OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT**

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(13) 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 Department 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 2018, the Department received \$2,191,414 in revenue under this compact.

(14) RELATED-PARTY TRANSACTIONS

Governmental Activities

During 2018, Osage Casinos distributed \$45,000,000 to the Department. The Department distributed \$1,500,000 to Bluestem Ranch, LLC, \$700,000 to Osage, LLC, and \$396,500 to Osage Nation Energy Service.

(15) COMMITMENTS AND CONTINGENCIES

Federal Grants

In the normal course of operations, the Department 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 Department does not believe that any liability for reimbursement which may arise as the result of such audits will be material to the Department's operations.

Litigation

The Department is involved in litigation from time-to-time as part of its ongoing operations. As of September 30, 2018, the Department is not aware of any pending litigation that would result in substantial losses.

Construction

The Department began a construction project in fiscal year 2018 for the Fairfax Wellness Center. As of September 30, 2018, the Department's total expenditures and accruals for construction totaling \$332,192 are included in construction in process in the government wide financial statements. The remaining commitment of approximately \$533,000 will be funded through the Indian Community Development Block Grant of the Department of Housing and Urban Development.

OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(16) NEW ACCOUNTING PRONOUNCEMENTS

The GASB has issued new accounting pronouncements which will be effective for the Department 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, 2019:

In April of 2018, GASB issued GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements* ("GASB 88"). The objective of GASB 88 is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. GASB 88 defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. GASB 88 requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, GASB 88 requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The requirements of GASB 88 are effective for reporting periods beginning after June 15, 2018. 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.

OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(16) NEW ACCOUNTING PRONOUNCEMENTS, CONTINUED

In June of 2018, GASB issued GASB Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61* (“GASB 90”). The primary objectives of GASB 90 are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. GASB 90 establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit. GASB 90 also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition. The requirements of GASB 90 are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Fiscal Year Ended September 30, 2021:

In June 2017, GASB issued Statement No. 87, *Leases* (“GASB 87”). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. GASB 87 increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB 87, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The provisions of GASB 87 are effective for periods beginning after December 15, 2019. Earlier application is encouraged.

OSAGE NATION
GOVERNMENTAL PROGRAMS DEPARTMENT

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2018

(16) NEW ACCOUNTING PRONOUNCEMENTS, CONTINUED

In June of 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period* ("GASB 89"). The objectives of GASB 89 are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. GASB 89 establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of GASB 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements, which are superseded by GASB 89. GASB 89 requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The requirements of GASB 89 are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of GASB 89 should be applied prospectively.