

*Audited Financial Statements and
Supplementary Information*

Osage Nation

September 30, 2017

OSAGE NATION

SEPTEMBER 30, 2017

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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, 2017, 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 discretely presented component units. The financial statements of Osage Casinos, Osage, LLC and Tallgrass comprise approximately 94%, 91%, and 100%, 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, 2017, 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.

Uncertainty Regarding Going Concern Tallgrass

The accompanying financial statements have been prepared assuming that Tallgrass will continue as a going concern. As discussed in Note 16 to the financial statements, Tallgrass's structure changed subsequent to year-end raising substantial doubt about Tallgrass's ability to continue as a going concern. Management's plans regarding these matters are also described in Note 16. The accompanying financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to this matter.

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 February 21, 2019, 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 PLLC

Edmond, Oklahoma
February 21, 2019

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2017

This management's discussion and analysis (MD&A) of the Osage Nation's (the Nation) fiscal year 2017 financial statements is provided to give an overview of the Nation's financial activities for fiscal year 2017. The information in this MD&A should be read in conjunction with the Nation's financial statements, including the notes to the financial statements.

Financial Highlights

- The assets of the Nation exceeded its liabilities at the close of fiscal year 2017 by \$331,939,617. Of this amount, \$53,707,288 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 \$27,191,802 from the prior fiscal year, of which \$21,698,324 is due to a net increase in equity in component units.
- The Nation's governmental funds reported combined fund balances of \$57,147,654, a decrease of \$922,118 from the prior year. The decrease in fund equity is primarily related to net cash transfers to the Bluestem Ranch, LLC of \$1,000,000.
- The Nation 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 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, 2017

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, culture and language, 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 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, 2017

- **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, 2017, the Nation's combined net position was \$331,939,617. Total assets increased \$29,123,571 (9%) and total liabilities increased by \$1,931,769 (7%). The net position of governmental activities increased \$27,934,145 (10%) in 2017. The net position of business-type activities decreased by \$742,343 (7%).

The unrestricted net position (\$53,707,288) is available to meet future obligations of the Nation.

Changes in Net Position of the Nation – The Nation's total revenues for the governmental activities increased \$2,128,377 (7%) in 2017. The increase was primarily related to increase in program revenues as a result of the addition of the Health Clinic program for a full year and other programmatic increases.

Total expenses for the governmental activities decreased approximately \$1,381,000 (2%) to approximately \$74,710,000. The Department's expenses cover a wide range of services, including health and human services, housing, culture and language, education, public safety, public works and general government. The significant changes were:

- General government expenses decreased approximately \$6,078,000 (23%). The decrease is primarily due to decreased program expenditures related to decreases in Tribal Development and Gaming Commission.
- Health and human services expenses increased approximately \$2,209,000 (9%) primarily due to the full year of the health clinic program.

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2017

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 26,407	\$ 26,801	\$ 2,302	\$ 2,313	\$ 28,709	\$ 29,114
Capital assets	135,328	131,292	8,705	9,144	144,033	140,436
Investments and certificates of dep.	53,999	49,497	302	374	54,301	49,871
Equity interest in component units	<u>133,040</u>	<u>111,342</u>	<u>-</u>	<u>-</u>	<u>133,040</u>	<u>111,342</u>
Total assets	<u>348,774</u>	<u>318,932</u>	<u>11,309</u>	<u>11,831</u>	<u>360,083</u>	<u>330,763</u>
Current and other liabilities	<u>27,512</u>	<u>25,604</u>	<u>631</u>	<u>411</u>	<u>26,015</u>	<u>27,472</u>
Total liabilities	<u>27,512</u>	<u>25,604</u>	<u>631</u>	<u>411</u>	<u>26,015</u>	<u>27,472</u>
Net position						
Net investment in capital assets	130,881	125,757	8,705	9,144	139,586	134,901
Restricted	138,647	119,034	-	-	138,647	119,034
Unrestricted	<u>51,734</u>	<u>48,537</u>	<u>1,973</u>	<u>2,276</u>	<u>53,707</u>	<u>50,813</u>
Total net position	<u>\$ 321,262</u>	<u>\$ 293,328</u>	<u>\$ 10,678</u>	<u>\$ 11,420</u>	<u>\$ 331,940</u>	<u>\$ 304,748</u>

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2017

Below is a summary of changes in net position for 2017 compared to 2016:

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues						
Program Revenues						
Charges for services	\$ 6,780	\$ 5,263	\$ 3,898	\$ 3,664	\$ 10,678	\$ 8,927
Operating grants/contributions	23,982	22,913	72	56	24,054	22,969
Capital grants/contributions	2,180	2,638	-	-	2,180	2,638
General revenues						
Change in equity in component units	21,698	(59,012)	-	-	21,698	(59,012)
Interest expense	(102)	(98)	-	-	(102)	(98)
Investment income (loss)	1,880	1,979	48	53	1,928	2,032
Tax revenue	2,127	2,456	-	-	2,127	2,456
Indirect cost recoveries	6,432	6,596	-	-	6,432	6,596
Gaming distributions received	40,000	127,282	-	-	40,000	127,282
Other	1,295	2,026	-	-	1,295	2,026
	<u>106,272</u>	<u>112,043</u>	<u>4,018</u>	<u>3,773</u>	<u>110,290</u>	<u>115,816</u>
Expenses						
General government	20,587	26,665	-	-	20,587	26,665
Education	13,337	13,534	-	-	13,337	13,534
Health and human services	26,557	24,348	-	-	26,557	24,348
Community services	583	535	-	-	583	535
Culture and language	3,126	2,641	-	-	3,126	2,641
Environmental management	1,665	1,087	-	-	1,665	1,087
Housing services	1,921	1,550	-	-	1,921	1,550
Public safety	2,735	2,427	-	-	2,735	2,427
Public works	1,284	809	-	-	1,284	809
Unallocated depreciation	2,915	2,496	-	-	2,915	2,496
Osage Properties	-	-	2,130	1,976	2,130	1,976
Revenue Tax	-	-	494	458	494	458
Other	-	-	4,764	3,378	4,764	3,378
	<u>74,710</u>	<u>76,092</u>	<u>7,388</u>	<u>5,812</u>	<u>82,098</u>	<u>81,904</u>
Changes Before Transfers	31,562	35,951	(3,370)	(2,039)	28,192	33,912
Distributions to Related Parties	(1,000)	(2,500)	-	-	(1,000)	(2,500)
Transfers	(2,628)	(2,159)	2,628	2,159	-	-
Change in Net Position	27,934	31,292	(742)	120	27,192	31,412
Net Position, Beginning of Year	293,328	262,036	11,420	11,300	304,748	273,336
Net Position, End of Year	<u>\$ 321,262</u>	<u>\$ 293,328</u>	<u>\$ 10,678</u>	<u>\$ 11,420</u>	<u>\$ 331,940</u>	<u>\$ 304,748</u>

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2017

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	\$ 1,132	\$ 2,130	\$ 508	\$ (490)
Revenue Tax	1,779	494	(1,496)	(211)
Nonmajor Proprietary Funds	1,107	4,765	3,616	(42)
	<u>\$ 4,018</u>	<u>\$ 7,389</u>	<u>\$ 2,628</u>	<u>\$ (743)</u>

Governmental Funds Financial Analysis

Governmental funds have a combined fund balance of \$57,147,654, down approximately \$922,000 (1.6%) from 2016. 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 Nation's discretion. Other categories of fund balance include restricted (\$5,606,073), which represents balances restricted by external agreements, assigned (\$401,939) and committed (\$48,046,164), which represents balances that can only be used for the specific purposes determined by a legislative act of the Osage Nation Congress.

The General Fund is the largest fund of the Nation. The General Fund's fund balance decreased approximately \$1,081,000 to approximately \$56,099,000. 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 restricted (\$5,343,787) and committed (\$47,842,958). 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 53% of General Fund balance. The decrease in fund balance is primarily due to distributions to component units.

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2017

Proprietary Funds Financial Analysis

Proprietary funds had a combined net position of \$10,677,814, a decrease of \$742,343 from 2016.

- The Osage Properties fund had an operating loss of \$998,123 with transfers in for operating costs of \$508,291. The majority of the Osage Properties fund net position is invested in capital assets of \$7,583,307 (95%).
- The Revenue Tax fund had operating income of \$1,285,450 with transfers out to the General Fund of \$1,496,113 and an ending net position of \$271,598. The fund generally transfers residual income to the General Fund.
- Other proprietary funds had a combined loss before transfers of \$3,657,735 with transfers in of \$3,615,887 and an ending net position of \$2,388,742.

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 2017 actual expenditures compared to budget are shown below:

OSAGE NATION**MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED****September 30, 2017**

	General Fund 2017		
	Actual	Budget	Variance
Revenues and Gaming Distributions			
Tax revenue	\$ 2,127	\$ 2,130	\$ (3)
Indirect cost recoveries	6,432	6,991	(559)
Investment income (loss)	1,781	600	1,181
Program and other revenue	4,722	4,209	513
Casino distribution	<u>40,000</u>	<u>40,000</u>	<u>-</u>
Total	<u>\$ 55,062</u>	<u>\$ 53,930</u>	<u>\$ 1,132</u>
Expenditures			
Community services	\$ 559	\$ 480	\$ (79)
Culture and language	3,125	3,927	802
Education	9,808	9,650	(158)
Environmental management	607	542	(65)
General government	21,722	20,795	(927)
Health and human services	9,414	9,943	529
Housing services	186	320	134
Public safety	1,692	1,694	2
Capital outlay	2,866	18,915	16,049
Debt service – principal	1,000	1,000	-
Debt service – interest	<u>102</u>	<u>250</u>	<u>148</u>
Total	<u>\$ 51,081</u>	<u>\$ 67,516</u>	<u>\$ 16,435</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 2017 includes the balances in these funds at the end of 2016.

OSAGE NATION

MANAGEMENT'S DISCUSSION AND ANALYSIS, CONTINUED

September 30, 2017

Capital Assets and Debt Administration

Capital Assets – The Nation has a \$144,032,436 net investment in capital assets at the end of fiscal year 2017. This represents a net increase of approximately \$3,596,000 over the prior year. The most significant increases are related to construction of the Sky Lodge Estates and Hominy Village Square.

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 78,628	\$ 78,493	\$ 2,827	\$ 2,827	\$ 81,455	\$ 81,320
Buildings	51,556	43,719	5,613	6,040	57,169	49,759
Equipment	2,197	2,141	265	277	2,462	2,418
Vehicles	329	398	-	-	329	398
Construction in progress	2,617	6,541	-	-	2,617	6,541
	<u>\$ 135,327</u>	<u>\$ 131,292</u>	<u>\$ 8,705</u>	<u>\$ 9,144</u>	<u>\$ 144,032</u>	<u>\$ 140,436</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, 2017, \$4,250,000 was outstanding on the loan.

Economic Factors and Next Year's Budget

The local economy remains relatively stable with some growth expected in 2018. The additional capital investments by the Nation's gaming enterprise should aid in revenue growth for 2018.

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, 2017

	Primary Government			
	Governmental	Business-Type	Total	Component Units
	Activities	Activities		
Assets				
Cash and cash equivalents	\$ 22,179,645	\$ 1,899,213	\$ 24,078,858	\$ 48,438,036
Certificates of deposit	15,147,301	302,476	15,449,777	-
Investments	33,507,589	-	33,507,589	801,681
Due from other governments	1,380,151	-	1,380,151	-
Accounts receivable, net	1,453,324	228,781	1,682,105	2,913,614
Prepaid expenses and other	1,041,892	152,628	1,194,520	1,802,774
Inventory	155,081	21,186	176,267	1,014,061
Restricted certificate of deposit	5,343,787	-	5,343,787	-
Due from other funds - internal balances	196,773	(196,773)	-	10,493
Equity interests in component units	133,040,325	-	133,040,325	2,538,936
Capital assets:				
Land and construction in progress	81,244,816	2,827,020	84,071,836	-
Other capital assets, net	54,083,052	5,877,548	59,960,600	166,917,168
Total assets	<u>\$ 348,773,736</u>	<u>\$ 11,112,079</u>	<u>\$ 359,885,815</u>	<u>\$ 224,436,763</u>
Liabilities				
Accounts payable	\$ 3,015,569	\$ 184,203	\$ 3,199,772	\$ 11,111,780
Accrued liabilities	1,311,599	168,614	1,480,213	10,618,087
Retainage payable	196,505	-	196,505	-
Health claims liability	119,692	-	119,692	-
Other liabilities	579,376	-	579,376	534,998
Unearned grant revenue	16,938,209	-	16,938,209	-
Compensated absences	1,100,983	81,448	1,182,431	-
Notes payable				
Due within one year	1,000,000	-	1,000,000	11,964,285
Due in more than one year	3,250,000	-	3,250,000	45,164,185
Total liabilities	<u>\$ 27,511,933</u>	<u>\$ 434,265</u>	<u>\$ 27,946,198</u>	<u>\$ 79,393,335</u>
Net position				
Net investment in capital assets	\$ 130,881,363	\$ 8,704,568	\$ 139,585,931	\$ 166,917,168
Restricted for:				
Equity investment in Component Units	133,040,325	-	133,040,325	-
Collateral pledges	5,343,787	-	5,343,787	-
Program services	262,286	-	262,286	-
Minority interest	-	-	-	1,007,537
Unrestricted	51,734,042	1,973,246	53,707,288	(22,881,277)
Total net position	<u>\$ 321,261,803</u>	<u>\$ 10,677,814</u>	<u>\$ 331,939,617</u>	<u>\$ 145,043,428</u>

See accompanying notes to financial statements.

OSAGE NATION

STATEMENT OF ACTIVITIES

Year ended September 30, 2017

Year ended September 30, 2017		Program Revenues			Net Revenue (Expense) and Changes in Net Position			
Functions/Programs	Expenses	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	\$ 20,587,199	\$ 1,486,717	\$ 682,539	\$ -	\$ (18,417,943)	\$ -	\$ (18,417,943)	\$ -
Education	13,336,960	73,794	2,867,757	-	(10,395,409)	-	(10,395,409)	-
Health and human services	26,556,575	3,173,968	14,302,509	-	(9,080,098)	-	(9,080,098)	-
Community services	583,586	-	24,576	-	(559,010)	-	(559,010)	-
Culture and language	3,125,584	1,987,011	407	-	(1,138,166)	-	(1,138,166)	-
Environmental management	1,665,536	150	889,598	-	(775,788)	-	(775,788)	-
Housing services	1,921,135	55,750	4,303,450	-	2,438,065	-	2,438,065	-
Public safety	2,735,035	2,763	911,128	-	(1,821,144)	-	(1,821,144)	-
Public works	1,283,716	-	-	2,179,531	895,815	-	895,815	-
Unallocated depreciation	2,914,776	-	-	-	(2,914,776)	-	(2,914,776)	-
Total governmental activities	74,710,102	6,780,153	23,981,964	2,179,531	(41,768,454)	-	(41,768,454)	-
Business-type activities:								
Osage Properties	2,130,419	1,132,296	-	-	-	(998,123)	(998,123)	-
Revenue tax	494,031	1,775,399	-	-	-	1,281,368	1,281,368	-
Other	4,764,247	990,371	72,332	-	-	(3,701,544)	(3,701,544)	-
Total business-type activities	7,388,697	3,898,066	72,332	-	-	(3,418,299)	(3,418,299)	-
Total primary government	\$ 82,098,799	\$ 10,678,219	\$ 24,054,296	\$ 2,179,531	(41,768,454)	(3,418,299)	(45,186,753)	-
Component units:								
	\$ 136,173,623	\$ 198,189,987	\$ -	\$ -	-	-	-	62,016,364
General revenues:								
					1,879,983	47,891	1,927,874	229,437
					2,126,797	-	2,126,797	-
					(102,402)	-	(102,402)	(1,333,669)
					1,295,681	-	1,295,681	170,804
					6,432,281	-	6,432,281	-
					40,000,000	-	40,000,000	(40,000,000)
					21,698,324	-	21,698,324	(393,803)
					(1,000,000)	-	(1,000,000)	1,000,000
					(2,628,065)	2,628,065	-	-
					69,702,599	2,675,956	72,378,555	(40,327,231)
					27,934,145	(742,343)	27,191,802	21,689,133
					293,327,658	11,420,157	304,747,815	123,354,295
					\$ 321,261,803	\$ 10,677,814	\$ 331,939,617	\$ 145,043,428

See accompanying notes to financial statements.

OSAGE NATION

BALANCE SHEET--GOVERNMENTAL FUNDS

September 30, 2017

	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	\$ 17,590,513	\$ 818,362	\$ 1,199,017	\$ 1,199,198	\$ -	\$ -	\$ 152,755	\$ 20,959,845
Certificates of deposit	372,765	-	-	-	14,774,536	-	-	15,147,301
Investments	33,507,589	-	-	-	-	-	-	33,507,589
Accounts receivable, net	861,574	-	389,883	187,772	-	3,744	10,351	1,453,324
Due from other funds	648,602	-	-	225,401	-	-	-	874,003
Due from other governments	8,843	118,746	675,392	23,948	-	481,836	71,386	1,380,151
Inventory	-	-	155,081	-	-	-	-	155,081
Prepaid expenses and other assets	546,793	7,521	420,527	27,593	2,315	7,524	2,643	1,014,916
Restricted certificate of deposit	5,343,787	-	-	-	-	-	-	5,343,787
Total assets	<u>\$ 58,880,466</u>	<u>\$ 944,629</u>	<u>\$ 2,839,900</u>	<u>\$ 1,663,912</u>	<u>\$ 14,776,851</u>	<u>\$ 493,104</u>	<u>\$ 237,135</u>	<u>\$ 79,835,997</u>
Liabilities and Fund Balances								
Liabilities:								
Accounts payable	\$ 1,504,220	\$ 79,347	\$ 694,547	\$ 153,053	\$ 279,776	\$ 283,182	\$ 9,371	\$ 3,003,496
Retainage payable	55,058	82,270	-	-	28,795	30,382	-	196,505
Accrued liabilities	832,405	20,102	284,105	69,237	22,005	42,481	23,192	1,293,527
Unearned grant revenue	243,341	-	1,451,881	1,131,564	14,051,171	-	60,252	16,938,209
Due to other funds	-	60,118	268,267	-	189,583	137,059	22,203	677,230
Other accrued liabilities	146,391	432,985	-	-	-	-	-	579,376
Total liabilities	2,781,415	674,822	2,698,800	1,353,854	14,571,330	493,104	115,018	22,688,343
Fund balances:								
Nonspendable	546,793	7,521	141,100	27,593	2,315	-	2,643	727,965
Restricted	5,343,787	262,286	-	-	-	-	-	5,606,073
Committed	47,842,958	-	-	-	203,206	-	-	48,046,164
Assigned	-	-	-	282,465	-	-	119,474	401,939
Unassigned	2,365,513	-	-	-	-	-	-	2,365,513
Total fund balances	<u>56,099,051</u>	<u>269,807</u>	<u>141,100</u>	<u>310,058</u>	<u>205,521</u>	<u>-</u>	<u>122,117</u>	<u>57,147,654</u>
Total liabilities and fund balances	<u>\$ 58,880,466</u>	<u>\$ 944,629</u>	<u>\$ 2,839,900</u>	<u>\$ 1,663,912</u>	<u>\$ 14,776,851</u>	<u>\$ 493,104</u>	<u>\$ 237,135</u>	<u>\$ 79,835,997</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, 2017

Total government fund balance	\$ 57,147,654
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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	149,713,497	
Accumulated depreciation	<u>(14,385,629)</u>	135,327,868

Equity investment in component units are not an available resource and, therefore, are not reported in the funds	133,040,325
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Notes payable are not due and payable in the current period, and therefore, are not reported in the funds.	(4,250,000)
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Compensated balances are not due and payable in the current period and therefore are not reported in the funds.	(1,100,983)
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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>1,096,939</u>
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Net position for governmental activities	<u>\$ 321,261,803</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, 2017

	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	\$ -	\$ 4,303,450	\$ 10,932,621	\$ 3,667,884	\$ 2,179,531	\$ 4,170,239	\$ 907,770	\$ 26,161,495
Tobacco tax revenue	2,126,797	-	-	-	-	-	-	2,126,797
Program revenue	3,671,941	55,750	2,961,043	1,010	-	24,115	66,294	6,780,153
Indirect cost revenue	6,432,281	-	-	-	-	-	-	6,432,281
Investment revenue	1,781,071	1,836	8,028	-	89,048	-	-	1,879,983
Other	1,050,310	-	-	245,371	-	-	-	1,295,681
Total revenues	15,062,400	4,361,036	13,901,692	3,914,265	2,268,579	4,194,354	974,064	44,676,390
Expenditures:								
General Government	21,722,335	-	-	986,623	-	-	-	22,708,958
Education	9,808,343	-	2,264,193	812,795	-	-	451,629	13,336,960
Health and human services	9,413,497	-	12,091,006	783,769	-	3,976,383	291,920	26,556,575
Community services	559,010	-	24,576	-	-	-	-	583,586
Culture and language	3,125,177	-	-	407	-	-	-	3,125,584
Environmental management	606,942	-	-	615,467	-	-	443,127	1,665,536
Housing services	185,649	1,735,486	-	-	-	-	-	1,921,135
Public safety	1,691,700	-	-	1,043,335	-	-	-	2,735,035
Public works	-	-	-	-	1,283,716	-	-	1,283,716
Capital outlay	2,865,505	2,667,768	25,974	70,583	990,315	303,818	26,993	6,950,956
Debt service								
Principal	1,000,000	-	-	-	-	-	-	1,000,000
Interest	102,402	-	-	-	-	-	-	102,402
Total expenditures	51,080,560	4,403,254	14,405,749	4,312,979	2,274,031	4,280,201	1,213,669	81,970,443
Revenues over (under) expenditures	(36,018,160)	(42,218)	(504,057)	(398,714)	(5,452)	(85,847)	(239,605)	(37,294,053)
Other financing sources (uses):								
Transfers in	-	-	547,760	708,772	-	85,847	92,473	1,434,852
Transfers out	(4,062,817)	(100)	-	-	-	-	-	(4,062,917)
Distributions to related parties	(1,000,000)	-	-	-	-	-	-	(1,000,000)
Gaming distributions	40,000,000	-	-	-	-	-	-	40,000,000
Total other financing sources (uses)	34,937,183	(100)	547,760	708,772	-	85,847	92,473	36,371,935
Net changes in fund balances	(1,080,977)	(42,318)	43,703	310,058	(5,452)	-	(147,132)	(922,118)
Fund balance, beginning of year	57,180,028	312,125	97,397	-	210,973	-	269,249	58,069,772
Fund balance, end of year	\$ 56,099,051	\$ 269,807	\$ 141,100	\$ 310,058	\$ 205,521	\$ -	\$ 122,117	\$ 57,147,654

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, 2017

Net changes in fund balances--total governmental funds \$ (922,118)

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	6,950,956	
Depreciation expense	<u>(2,914,776)</u>	4,036,180

Change in equity investment in component units	21,698,324
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Internal service funds are used by the Nation to charge the costs of certain activities to the individual funds. The net revenue of internal service funds applicable to governmental activities is reported with governmental activities

	1,892,351
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Principal payments are expended as made in the governmental funds. However, they are reflected as a reduction of long-term debt on the statement of net position

	1,000,000
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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>229,408</u>
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Change in net position of governmental activities	<u>\$ 27,934,145</u>
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See accompanying notes to financial statements.

OSAGE NATION

STATEMENT OF NET POSITION--PROPRIETARY FUNDS

September 30, 2017

	Business-Type Activities				Governmental Activities
	Osage Properties	Revenue Tax	Nonmajor Funds	Total	Internal Service Fund
Assets					
Current assets:					
Cash and cash equivalents	\$ 436,878	\$ 193,561	\$ 1,268,774	\$ 1,899,213	\$ 1,219,800
Certificates of deposit	-	-	302,476	302,476	-
Accounts receivable	32,737	94,338	101,706	228,781	-
Prepaid expenses	128,002	310	24,316	152,628	26,976
Inventory	-	21,186	-	21,186	-
Total current assets	597,617	309,395	1,697,272	2,604,284	1,246,776
Noncurrent assets					
Capital assets, net	7,583,307	-	1,121,261	8,704,568	-
	7,583,307	-	1,121,261	8,704,568	-
Total assets	\$ 8,180,924	\$ 309,395	\$ 2,818,533	\$ 11,308,852	\$ 1,246,776
Liabilities					
Current liabilities:					
Accounts payable	\$ 100,865	\$ 2,692	\$ 80,646	\$ 184,203	\$ 12,073
Accrued liabilities	27,715	21,823	119,076	168,614	18,072
Health claims liability	-	-	-	-	119,692
Compensated absences	23,287	5,536	52,625	81,448	-
Due to other funds	11,583	7,746	177,444	196,773	-
Total liabilities	\$ 163,450	\$ 37,797	\$ 429,791	\$ 631,038	\$ 149,837
Net position (deficit)					
Net investment in capital assets	\$ 7,583,307	\$ -	\$ 1,121,261	\$ 8,704,568	\$ -
Unrestricted	434,167	271,598	1,267,481	1,973,246	1,096,939
Total net position (deficit)	\$ 8,017,474	\$ 271,598	\$ 2,388,742	\$ 10,677,814	\$ 1,096,939

See accompanying notes to financial statements.

OSAGE NATION

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

Year ended September 30, 2017

	Business-Type Activities				Governmental Activities
	Osage Properties	Revenue Tax	Nonmajor Funds	Total	Internal Service Fund
Operating revenues:					
Utility income	\$ -	\$ -	\$ 718,193	\$ 718,193	\$ -
Rental income	1,132,296	-	59,778	1,192,074	-
Tax revenue	-	1,696,741	-	1,696,741	-
Intergovernmental	-	-	72,332	72,332	-
Claims cost recovery	-	-	-	-	5,104,325
Other revenue	-	78,658	212,400	291,058	-
Total operating revenues	1,132,296	1,775,399	1,062,703	3,970,398	5,104,325
Operating expenses:					
Cost of merchandise sales	-	14,586	566,196	580,782	-
Salaries and benefits	649,400	326,554	2,721,576	3,697,530	-
Contractual and professional services	20,051	-	8,806	28,857	-
Travel and training	21,046	9,751	34,310	65,107	-
Expendable equipment	17,773	16,769	25,763	60,305	-
Repairs and maintenance / occupancy	642,224	-	133,184	775,408	-
Tribal member assistance	-	-	207,609	207,609	-
Claims incurred	-	-	-	-	3,211,974
Indirect cost	124,602	76,714	729,194	930,510	-
Other supplies and expenses	221,997	49,657	278,027	549,681	-
Depreciation	433,326	-	59,582	492,908	-
Total operating expenses	2,130,419	494,031	4,764,247	7,388,697	3,211,974
Operating income (loss)	(998,123)	1,281,368	(3,701,544)	(3,418,299)	1,892,351
Nonoperating revenue:					
Interest income	-	4,082	43,809	47,891	-
Total nonoperating revenue	-	4,082	43,809	47,891	-
Income (loss) before transfers	(998,123)	1,285,450	(3,657,735)	(3,370,408)	1,892,351
Transfers in (out)	508,291	(1,496,113)	3,615,887	2,628,065	-
Net transfers	508,291	(1,496,113)	3,615,887	2,628,065	-
Change in net position	(489,832)	(210,663)	(41,848)	(742,343)	1,892,351
Net position at beginning of year	8,507,306	482,261	2,430,590	11,420,157	(795,412)
Net position (deficit) at end of year	<u>\$ 8,017,474</u>	<u>\$ 271,598</u>	<u>\$ 2,388,742</u>	<u>\$ 10,677,814</u>	<u>\$ 1,096,939</u>

See accompanying notes to financial statements.

OSAGE NATION

STATEMENTS OF CASH FLOWS--PROPRIETARY FUNDS

Year ended September 30, 2017

	Business-Type Activities				Governmental Activities
	Osage Properties	Revenue Tax	Nonmajor Funds	Total	Internal Service Fund
Cash flows from operating activities:					
Cash received from customers	\$ 1,111,849	\$ 1,776,712	\$ 1,061,141	\$ 3,949,702	\$ 5,104,325
Cash paid to employees	(642,215)	(326,554)	(2,736,245)	(3,705,014)	-
Cash paid to suppliers	(1,045,135)	(154,028)	(1,985,125)	(3,184,288)	-
Cash received from (paid to) other funds	11,583	(3,568)	177,444	185,459	-
Cash paid for claims	-	-	-	-	(3,884,525)
Net cash provided by (used in) operating activities	(563,918)	1,292,562	(3,482,785)	(2,754,141)	1,219,800
Investing activities:					
Maturity of investments	-	-	71,591	71,591	-
Interest received	-	4,082	43,809	47,891	-
Net cash provided by noncapital financing activities	-	4,082	115,400	119,482	-
Cash flows from noncapital financing activities:					
Transfers, net	508,291	(1,496,113)	3,615,887	2,628,065	-
Net cash provided by (used in) noncapital financing activities	508,291	(1,496,113)	3,615,887	2,628,065	-
Cash flows from capital and related financing activities:					
Purchase of vehicles and equipment	(26,847)	-	(26,930)	(53,777)	-
Net cash used in noncapital financing activities	(26,847)	-	(26,930)	(53,777)	-
Net increase (decrease) in cash and cash equivalents	(82,474)	(199,469)	221,572	(60,371)	1,219,800
Cash and cash equivalents at beginning of year	519,352	393,030	1,047,202	1,959,584	-
Cash and cash equivalents at end of year	<u>\$ 436,878</u>	<u>\$ 193,561</u>	<u>\$ 1,268,774</u>	<u>\$ 1,899,213</u>	<u>\$ 1,219,800</u>

See accompanying notes to financial statements.

OSAGE NATION

STATEMENTS OF CASH FLOWS--PROPRIETARY FUNDS, CONTINUED

Year ended September 30, 2017

	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)	\$ (998,123)	\$ 1,281,368	\$ (3,701,544)	\$ (3,418,299)	\$ 1,609,010
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:					
Depreciation	433,326	-	59,582	492,908	-
Changes in assets and liabilities:					
Accounts receivable	(20,447)	1,313	(1,562)	(20,696)	-
Other assets	(19,893)	1,770	858	(17,265)	5,158
Accounts payable	10,908	1,356	(53,860)	(41,596)	12,073
Accrued liabilities	18,728	10,323	36,297	65,348	(406,441)
Due to other funds	11,583	(3,568)	177,444	185,459	-
Net cash provided by (used in) operating activities	<u>\$ (563,918)</u>	<u>\$ 1,292,562</u>	<u>\$ (3,482,785)</u>	<u>\$ (2,754,141)</u>	<u>\$ 1,219,800</u>

See accompanying notes to financial statements.

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

September 30, 2017

	Osage Casinos	Tallgrass Economic Development, LLC	Osage, LLC	Osage Home Health	Osage Nation Energy Services	Osage Nation Foundation	Total
Assets							
Cash and cash equivalents	\$ 45,480,921	\$ 8,703	\$ 1,176,529	\$ 24,396	\$ 249,789	\$ 490,161	\$ 47,430,499
Restricted cash and cash equivalents	-	-	1,007,537	-	-	-	1,007,537
Accounts receivable	2,485,327	-	281,448	146,839	-	-	2,913,614
Prepaid expenses and other	1,731,243	26,072	45,409	-	50	-	1,802,774
Investments	-	-	801,681	-	-	-	801,681
Due from related party	-	476,211	3,750	-	-	-	479,961
Equity interest in component unit	-	2,538,936	-	-	-	-	2,538,936
Inventory	1,000,349	-	-	5,259	-	8,453	1,014,061
Capital assets, net	155,051,317	13,083	41,814	-	110,954	11,700,000	166,917,168
Total assets	<u>\$ 205,749,157</u>	<u>\$ 3,063,005</u>	<u>\$ 3,358,168</u>	<u>\$ 176,494</u>	<u>\$ 360,793</u>	<u>\$ 12,198,614</u>	<u>\$ 224,906,231</u>
Liabilities							
Accounts payable	\$ 10,611,533	\$ 16,120	\$ 475,003	\$ 9,124	\$ -	\$ -	\$ 11,111,780
Accrued liabilities	10,506,255	650	9,520	-	12,079	89,583	10,618,087
Due to related party	-	3,750	465,718	-	-	-	469,468
Billings in excess of costs and estimated earnings on contracts	-	-	429,070	-	-	-	429,070
Long-term debt	57,128,470	-	-	-	-	-	57,128,470
Annuity payable	-	-	-	-	-	105,928	105,928
Total liabilities	<u>\$ 78,246,258</u>	<u>\$ 20,520</u>	<u>\$ 1,379,311</u>	<u>\$ 9,124</u>	<u>\$ 12,079</u>	<u>\$ 195,511</u>	<u>\$ 79,862,803</u>
Net position (deficit)							
Net investment in capital assets	\$ 155,051,317	\$ 13,083	\$ 41,814	\$ -	\$ 110,954	\$ 11,700,000	\$ 166,917,168
Restricted	-	-	1,007,537	-	-	-	1,007,537
Unrestricted	(27,548,418)	3,029,402	929,506	167,370	237,760	303,103	(22,881,277)
Total net position (deficit)	<u>\$ 127,502,899</u>	<u>\$ 3,042,485</u>	<u>\$ 1,978,857</u>	<u>\$ 167,370</u>	<u>\$ 348,714</u>	<u>\$ 12,003,103</u>	<u>\$ 145,043,428</u>

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, 2017

	Osage Casinos	Tallgrass Economic Development, LLC *	Osage, LLC*	Osage Home Health	Osage Nation Energy Services	Osage Nation Foundation	Total
Operating revenues:							
Gaming revenue	\$ 172,787,193	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 172,787,193
Merchandise sales	9,402,830	-	-	-	-	1,473	9,404,303
Food and beverage	9,852,879	-	-	-	-	-	9,852,879
Charges for goods and services	-	-	-	648,513	-	-	648,513
Grants and donations	-	-	-	-	-	270,650	270,650
Lease income	-	5,300	-	-	17,320	108,000	130,620
Contract income	-	-	1,807,022	-	-	-	1,807,022
Other revenue	6,353,771	-	700,586	1	-	-	7,054,358
Less promotional allowances	(3,765,551)	-	-	-	-	-	(3,765,551)
Total operating revenues	194,631,122	5,300	2,507,608	648,514	17,320	380,123	198,189,987
Operating expenses:							
Salaries and benefits	53,141,128	200,072	233,197	297,741	-	-	53,872,138
Contractual and professional services	-	116,345	150,639	196,912	13,390	78,309	555,595
Cost of goods sold	-	-	2,089,888	-	-	-	2,089,888
Travel and training	-	11,696	19,270	8,294	-	9,587	48,847
Repairs and maintenance	-	-	-	-	250	18,834	19,084
Marketing and advertising	6,680,837	-	-	-	-	-	6,680,837
Depreciation and amortization	16,604,863	9,910	6,077	-	8,813	-	16,629,663
Annuity expense	-	-	-	-	-	36,000	36,000
Grant expense	-	-	-	-	-	216,058	216,058
Gaming and related	22,964,918	-	-	-	-	-	22,964,918
General and administrative	11,064,426	122,198	62,981	123,632	11,605	30,526	11,415,368
Food and beverage	5,148,675	-	-	-	-	-	5,148,675
Compact fees	7,790,309	-	-	-	-	-	7,790,309
Retail	8,055,657	-	-	-	-	-	8,055,657
Hotel	522,261	-	-	-	-	-	522,261
Entertainment	211,600	-	-	-	-	-	211,600
Other supplies, expenses, loss(gains)	(186,755)	65,173	30,437	6,280	1,590	-	(83,275)
Total operating expenses	131,997,919	525,394	2,592,489	632,859	35,648	389,314	136,173,623
Operating income (loss)	62,633,203	(520,094)	(84,881)	15,655	(18,328)	(9,191)	62,016,364
Nonoperating revenues (expenses):							
Interest income	208,084	-	21,353	-	-	-	229,437
Interest expense	(1,333,669)	-	-	-	-	-	(1,333,669)
Other	-	-	170,804	-	-	-	170,804
Decrease in equity in component unit	-	(393,803)	-	-	-	-	(393,803)
Total nonoperating revenues (expenses)	(1,125,585)	(393,803)	192,157	-	-	-	(1,327,231)
Contributions (distributions) from (to) Osage Nation	(40,000,000)	1,000,000	-	-	-	-	(39,000,000)
Change in net position	21,507,618	86,103	107,276	15,655	(18,328)	(9,191)	21,689,133
Net position at beginning of year	105,995,281	2,956,382	1,871,581	151,715	367,042	12,012,294	123,354,295
Net position (deficit) at end of year	\$ 127,502,899	\$ 3,042,485	\$ 1,978,857	\$ 167,370	\$ 348,714	\$ 12,003,103	\$ 145,043,428

* Information for the nine months ended September 30, 2017

See accompanying notes to financial statements.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS

September 30, 2017

(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 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, 2017

(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, 2017

(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, 2017, distributions from the Osage Casinos amounted to \$40,000,000.

September 30, 2017

(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, 2017

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

BASIS OF PRESENTATION, CONTINUED

- **Department of Transportation** – This fund accounts for the resources received by the Nation to provide construction of roads and other transportation matters to tribal members.
- **Department of Agriculture** – This fund accounts for the resources received by the Nation to provide nutrition and food to tribal members.

Proprietary Fund Types

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

The Nation reports the following major enterprise funds:

- **Osage Properties** – Osage Properties provides property management and maintenance services for certain land and properties owned by the Nation. Osage Properties charges a space cost to Osage Nation programs to recover a portion of the costs associated with property management.
- **Revenue Tax** – The Revenue Tax fund accounts for tax receipts for various taxes, including sales, 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, 2017

(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, 2017, 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, 2017

(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, 2017, amounted to \$1,380,151.

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 2017.

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, 2017

(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, 2017.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

(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, 2017, totaled \$1,100,983 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 2017.

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, 2017.

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, 2017.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

(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.

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, 2017

(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, 2017

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

ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

During the year ended September 30, 2017, the Department adopted GASB 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*. Management has determined that the adoption of GASB 80 did not have a significant impact on the Nation’s financial reporting.

SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 21, 2019, which is the date the financial statements were available to be issued. See Note 16 for discussion of subsequent events for Tallgrass, LLC.

(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, 2017

(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, 2017, the maturities of the Nation's investments subject to interest rate risk were as follows:

Investment Type	Fair Value	Average Maturity (Years)
Money market funds	\$ 3,231,959	-
Convertible bonds	2,055,297	3.61
Corporate bonds	10,185,361	2.49
Government-sponsored entities	8,102,082	1.07
U.S. treasuries	3,746,779	0.75
	<u>\$ 27,321,478</u>	
Portfolio weighted-average maturity		1.69

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, 2017

(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, 2017, 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	\$ 3,231,959	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,231,959
Convertible bonds	2,082,175	-	26,878	-	158,050	267,317	1,629,930
Corporate bonds	10,158,483	1,616,572	2,392,655	6,149,256	-	-	-
Government-sponsored	8,102,082	8,102,082	-	-	-	-	-
U.S. treasuries	3,746,779	3,746,779	-	-	-	-	-
	<u>27,321,478</u>	<u>\$ 13,465,433</u>	<u>\$ 2,419,533</u>	<u>\$ 6,149,256</u>	<u>\$ 158,050</u>	<u>\$ 267,317</u>	<u>\$ 4,861,889</u>
Equities	<u>6,186,111</u>						
Total investments	<u>\$ 33,507,589</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, 2017

(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, 2017, the balance of securities held by the third-party custodian was approximately \$33,508,000.

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, 2017

(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, 2017:

	Level 1	Level 2	Level 3	Total
Investments				
Convertible bonds	\$ -	\$ 2,082,175	\$ -	\$ 2,082,175
Corporate bonds	-	10,158,483	-	10,158,483
Government-sponsored entities	-	8,102,082	-	8,102,082
U.S. treasuries	-	3,746,779	-	3,746,779
Equities	6,186,111	-	-	6,186,111
Total investments accounted for at fair value	\$ 6,186,111	\$ 24,089,519	\$ -	\$ 30,275,630
Money market funds *				3,231,959
Total Investments				\$ 33,507,589

* - 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, 2017**

(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, 2017 were as follows:

	Historical	Gross	Gross	
	Cost	Unrealized	Unrealized	Fair Value
		Gains	Losses	
Investments				
Cash equivalents	\$ 3,231,959	\$ -	\$ -	\$ 3,231,959
Convertible bonds	1,952,787	297,519	(168,131)	2,082,175
Corporate bonds	10,396,030	38,869	(276,416)	10,158,483
Government-sponsored entities	8,106,306	14,346	(18,570)	8,102,082
U.S. treasuries	3,718,680	28,417	(318)	3,746,779
Equities	5,124,381	1,423,716	(361,986)	6,186,111
Total investments	<u>\$ 32,530,143</u>	<u>\$ 1,802,867</u>	<u>\$ (825,421)</u>	<u>\$ 33,507,589</u>

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

(3) CAPITAL ASSETS

	Primary Government				
	Balance at October 1, 2016	Additions	Disposals	Transfers	Balance at September 30, 2017
Governmental activities					
Capital assets not being depreciated:					
Land	\$ 78,493,015	\$ 25,780	\$ -	\$ 108,934	\$ 78,627,729
Construction in progress	6,541,442	6,061,750	-	(9,986,105)	2,617,087
Total capital assets not being depreciated	85,034,457	6,087,530	-	(9,877,171)	81,244,816
Capital assets being depreciated:					
Buildings and improvements	51,572,808	285,528	-	9,877,171	61,735,507
Furniture, fixtures and equipment	3,607,500	442,793	-	-	4,050,293
Vehicles	2,547,776	135,105	-	-	2,682,881
Total capital assets being depreciated	57,728,084	863,426	-	9,877,171	68,468,681
Less accumulated depreciation for:					
Buildings and improvements	7,854,172	2,324,957	-	-	10,179,129
Furniture, fixtures and equipment	1,466,995	203,009	-	-	1,670,004
Vehicles	2,149,686	386,810	-	-	2,536,496
Total Accumulated Depreciation	11,470,853	2,914,776	-	-	14,385,629
Capital assets being depreciated, net	46,257,231	(2,051,350)	-	9,877,171	54,083,052
Total governmental capital assets, net	\$131,291,688	\$ 4,036,180	\$ -	\$ -	\$ 135,327,868

Depreciation expense of \$2,914,776 is unallocated on the accompanying government-wide statement of activities.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

(3) CAPITAL ASSETS, CONTINUED

		Primary Government		
		Balance at October 1, 2016	Additions	Disposals and Reclassifications
				Balance at September 30, 2017
Business-type activities				
Capital assets not being depreciated:				
Land		\$ 2,827,020	\$ -	\$ -
Total capital assets not being depreciated		2,827,020	-	2,827,020
Capital assets being depreciated:				
Buildings and improvements		14,351,629	-	-
Furniture, fixtures, and equipment		696,322	37,777	(45,659)
Vehicles		147,485	16,000	-
Total other capital assets at historical cost		15,195,436	53,777	(45,659)
Less Accumulated Depreciation for:				
Buildings and improvements		8,311,542	428,166	-
Furniture, fixtures, and equipment		419,730	62,875	(45,659)
Vehicles		147,485	1,867	-
Total accumulated depreciation		8,878,757	492,908	(45,659)
Capital assets being depreciated, net		6,316,679	(439,131)	-
Business-type activities capital assets, net		\$ 9,143,699	\$ (439,131)	\$ -

(4) EQUITY INTEREST 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, 2017, 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 \$133,040,325 at September 30, 2017. During the year ended September 30, 2017, the Nation recognized an increase in equity in these owned component units of \$21,698,324.

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.

OSAGE NATION**NOTES TO FINANCIAL STATEMENTS, CONTINUED****September 30, 2017****(5) COMPENSATED ABSENCES**

Changes in compensated absences for the year ended September 30, 2017, were as follows:

	Balance at October 1, 2016	Additions	Deductions	Balance at September 30, 2017
Governmental Activities				
Compensated absences	<u>\$ 1,330,391</u>	<u>\$ 1,100,983</u>	<u>\$ 1,330,391</u>	<u>\$ 1,100,983</u>

(6) 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.

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

	Principal	Interest	Total
2018	\$ 1,000,000	\$ 64,696	\$ 1,064,696
2019	1,000,000	44,996	1,044,996
2020	875,000	28,505	903,505
2021	500,000	25,840	525,840
2022	500,000	17,990	517,990
2023-2024	375,000	8,995	383,995
	<u>\$ 4,250,000</u>	<u>\$ 191,022</u>	<u>\$ 4,441,022</u>

The following summarizes changes in the Department's long-term debt for the year ended September 30, 2017:

Balance at October 1, 2016	Additions	Reductions	Balance at September 30, 2017
<u>\$ 5,250,000</u>	<u>\$ -</u>	<u>\$ 1,000,000</u>	<u>\$ 4,250,000</u>

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

(6) LONG-TERM DEBT, CONTINUED

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, 2017, borrowings under the Term Loan were \$57,128,470.

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, 2017, 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, 2017, 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.

OSAGE NATION**NOTES TO FINANCIAL STATEMENTS, CONTINUED****September 30, 2017**

(6) LONG-TERM DEBT, CONTINUED

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 (2.48 percent at September 30, 2017). 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, 2017) 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, 2017:

Balance at October 1, 2016	Additions	Reductions	Balance at September 30, 2017
<u>\$ 66,699,898</u>	<u>\$ -</u>	<u>\$ 9,571,428</u>	<u>\$ 57,128,470</u>

(7) INTERFUND ACTIVITY

Interfund balances are summarized as follows:

Payable (Receivable) Fund

General Fund	\$ (648,602)
Dept. of Housing and Urban Dev.	60,118
Dept. of Health and Human Svcs.	268,267
Dept. of Interior	(225,401)
Dept. of Transportation	189,583
Dept. of Agriculture	137,059
Nonmajor governmental funds	22,203
Proprietary funds	196,773
	<u>\$ -</u>

All amounts will be repaid within the year.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

(7) INTERFUND ACTIVITY, CONTINUED

Transfers are summarized as follows:

Transfer In (Out)	
General Fund	\$ (4,062,817)
Dept. of Housing and Urban Dev.	(100)
Dept. of Health and Human Svcs.	547,760
Dept. of Interior	708,772
Dept. of Agriculture	85,847
Nonmajor governmental funds	92,473
Proprietary funds:	
Osage Properties	508,291
Revenue Tax	(1,496,113)
Nonmajor proprietary	3,615,887
	<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 2017 that was transferred to the General Fund was \$1,496,113.

(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 \$16,606,348. 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 Nation's reported employee health claims liability of \$119,692 at September 30, 2017, has been recorded in accordance with GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. This liability includes all open claims for the health plan.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

(8) SELF-INSURANCE, CONTINUED

The claims liability has been estimated based on open claims at September 30, 2017. 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	Additions	Deductions	Balance at September 30
2017	<u>\$ 537,105</u>	<u>\$ 3,254,635</u>	<u>\$ 3,672,048</u>	<u>\$ 119,692</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 2017, the expenditures for member benefits were \$7,625,565. 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, 2017, was \$1,644,349 and is reported as committed fund balance in the General Fund.

(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.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

(11) FUND EQUITY

	General Fund	HUD	DHHS	DOI	DOT	Other Govt'l Funds	Total Govt'l Funds
Nonspendable	\$ 546,793	\$ 7,521	\$ 141,100	\$ 27,593	\$ 2,315	\$ 2,643	\$ 727,965
Restricted							
Restricted for collateral pledge	5,343,787	-	-	-	-	-	5,343,787
Restricted for grant purpose	-	262,286	-	-	-	-	262,286
Total restricted	5,343,787	262,286	-	-	-	-	5,606,073
Committed							
Program Purposes	-	-	-	-	203,206	-	203,206
Burial assistance	37,304	-	-	-	-	-	37,304
Education scholarships	2,813,207	-	-	-	-	-	2,813,207
Minerals Council programs	1,505,682	-	-	-	-	-	1,505,682
Health benefits	1,644,349	-	-	-	-	-	1,644,349
Restricted property purchase	59,925	-	-	-	-	-	59,925
Permanent Fund	30,000,000	-	-	-	-	-	30,000,000
Retained revenue	2,478,773	-	-	-	-	-	2,478,773
Campus construction	109,625	-	-	-	-	-	109,625
Capital improvements	5,655,299	-	-	-	-	-	5,655,299
Tribal development	274,690	-	-	-	-	-	274,690
Osage War Memorial	1,107,992	-	-	-	-	-	1,107,992
Economic development	2,000,000	-	-	-	-	-	2,000,000
Fund/Court Fees	156,112	-	-	-	-	-	156,112
Total committed	47,842,958	-	-	-	203,206	-	48,046,164
Assigned							
Tribal supplements	-	-	-	282,465	-	119,474	401,939
Unassigned	2,365,513	-	-	-	-	-	2,365,513
Total fund balance	<u>\$ 56,099,051</u>	<u>\$ 269,807</u>	<u>\$ 141,100</u>	<u>\$ 310,058</u>	<u>\$ 205,521</u>	<u>\$ 122,117</u>	<u>\$ 57,147,654</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, 2017

(12) 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, 2017, were approximately \$773,000. Contributions made by the Nation to the 401(k) plan for the employees for the year ended September 30, 2017, were approximately \$648,000.

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, 2017, were approximately \$56,000. Contributions made by the Nation to the Congressional 401(k) plan for the year ended September 30, 2017, were approximately \$37,000.

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 \$1,363,892 and employee contributions were \$1,591,294 for the year ended September 30, 2017.

(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 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 2017, the Nation received \$2,126,797 in revenue under this compact.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

(14) RELATED-PARTY TRANSACTIONS

Governmental Activities

During 2017, Osage Casinos distributed \$40,000,000 to the Nation. The Nation distributed \$1,000,000 to Bluestem Ranch, LLC.

Discretely Presented Component Units

During 2017, Osage Casinos made payments to agencies of the Nation and/or entities affiliated with the Nation as follows:

Osage Nation Tax Commission	\$	530,904
Osage Industrial Park		89,935
Osage Nation Gaming Commission		158,165
Osage Nation ENR Department		100
Osage Nation Oil & Gas Summit		10,000
	\$	<u>789,104</u>

(15) 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.

Litigation

The Nation is involved in litigation from time-to-time as part of its ongoing operations. As of September 30, 2017, 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.

OSAGE NATION

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

(15) COMMITMENTS AND CONTINGENCIES, CONTINUED

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 \$21,431,554 for the year ended September 30, 2017.

Construction Projects

The Nation began a construction project in fiscal year 2017 for the Hominy Village Square roads package. As of September 30, 2017, the Department's total expenditures and accruals for construction totaling \$681,637 are included in construction in process in the government wide financial statements. The remaining commitment of \$644,000 will be funded through the transportation improvement program of the Department of Transportation.

The Nation entered into a \$3,241,140 construction contract for the construction of the Hominy Village Community Square. As of September 30, 2017, there was \$2,745,614 remaining to be completed under the contract. The contract will be funded through the committed capital improvement funds.

(16) SUBSEQUENT EVENT AND MANAGEMENT'S PLAN FOR TALLGRASS, LLC

Tallgrass and Bluestem sustained operating losses during the year of \$520,094 and \$366,844, respectively. The financial statements of Tallgrass and Bluestem have been prepared on a going concern basis. On September 21, 2018, the Osage Nation approved the restructure of Tallgrass. Tallgrass will no longer be a separate component unit of the Osage Nation but a subsidiary under Osage LLC (a component unit of the Osage Nation). The discretely presented component unit, Bluestem Ranch, LLC, was removed as a component unit of Tallgrass and became separate component unit of the Osage Nation. The financial statements do not give effect to any adjustments, which would be necessary should Tallgrass and Bluestem be unable to continue as a going concern and, therefore, be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

(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, 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, 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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

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

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.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

September 30, 2017

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

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.

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.