



Financial Statements
September 30, 2012
Osage Nation

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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Osage Nation (the "Nation"), as of and for the year ended September 30, 2012, which collectively comprise the Nation's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Nation's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraphs, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We did not apply audit procedures over the amount due to the federal government as it relates to the Department of Agriculture major fund because it is currently unknown. As discussed in Note 16 to the financial statements, the Nation is unable to estimate amounts owed to the federal government due to occurrences of improper disbursement of federal funds and other resources to ineligible participants. This matter is currently under investigation to determine the magnitude of the disbursement to ineligible participants. We were unable to satisfy ourselves about the completeness of the liability by means of other auditing procedures.

In our opinion, except for the effects of not recording a liability for amounts owed to the federal government on the Department of Agriculture major fund that is discussed in the preceding paragraph, the financial statements referred to in the preceding paragraph present fairly, in all material respects, the financial position of the Osage Nation as of September 30, 2012, and the changes in its 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.

As discussed in Note 11 to the financial statements, certain errors resulting in the overstatement of capital assets, an incorrectly classified fund, and understated deferred revenue as of September 30, 2011, were discovered by management of the Nation subsequent to the issuance of the auditor's report on the financial statements dated June 28, 2012. Accordingly, adjustments have been made to the fund balance of the general fund and to the net assets of the fiduciary fund and governmental activities to correct the errors.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 27, 2013 on our consideration of the Nation's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted management's discussion and analysis and the budgetary comparison 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.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Osage Nation's financial statements as a whole. The combining component unit financial statements on pages 12 and 13 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



Oklahoma City, Oklahoma
June 27, 2013

Osage Nation
Statement of Net Assets
September 30, 2012

	Governmental Activities	Business- Type Activities	Total	Component Units
Assets				
Current assets				
Cash and cash equivalents	\$ 54,765,209	\$ 2,745,864	\$ 57,511,073	\$ 58,937,680
Investments	25,529,795	-	25,529,795	1,500,000
Accounts receivable	319,472	166,590	486,062	2,922,928
Due from other governments	1,700,247	-	1,700,247	-
Prepaid expenses and other	7,393	3,807	11,200	1,246,462
Inventory	-	20,097	20,097	2,056,987
Receivable from related parties	2,499,003	-	2,499,003	1,996,902
Noncurrent assets				
Capital assets, net	12,931,585	10,719,733	23,651,318	59,567,224
Other long term assets	-	-	-	4,323,847
Total assets	\$ 97,752,704	\$ 13,656,091	\$ 111,408,795	\$ 132,552,030
Liabilities				
Current liabilities				
Accounts payable	\$ 4,144,942	\$ 141,132	\$ 4,286,074	\$ 7,244,946
Accrued payroll liabilities	449,335	-	449,335	3,804,398
Internal balances	994,433	1,504,571	2,499,004	-
Due to related parties	-	-	-	2,253,682
Deferred/unearned revenue	14,407,967	-	14,407,967	1,312,976
Health claims liability	265,909	-	265,909	-
Other current liabilities	181,788	17,938	199,726	3,325,947
Current portion of compensated absences	450,155	44,144	494,299	-
Other noncurrent liabilities	-	-	-	215,414
Total liabilities	20,894,529	1,707,785	22,602,314	18,157,363
Net assets				
Invested in capital assets	12,931,585	10,719,733	23,651,318	59,567,224
Restricted	-	-	-	584,058
Unrestricted	63,926,590	1,228,573	65,155,162	54,243,385
Total net assets	\$ 76,858,175	\$ 11,948,306	\$ 88,806,481	\$ 114,394,667

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Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities				
General government	\$ 19,911,070	\$ 795,868	\$ 1,132,923	\$ -
Education	11,303,307	26,060	1,916,036	-
Health and human services	15,163,560	79,206	9,131,896	-
Community services	400,988	48,005	33,690	-
Culture and language	2,042,802	260,493	15,036	-
Environmental management	842,114	-	490,898	-
Housing services	1,522,919	45,544	1,358,874	-
Public safety	2,125,783	-	-	-
Public works	7,645,483	250,324	8,088,851	-
Unallocated depreciation	672,673	-	-	-
Total governmental activities	61,630,699	1,505,500	22,168,204	-
Business-type activities				
Properties	1,926,570	-	-	-
Other	2,797,356	-	109,156	-
Total business-type activities	4,723,926	-	109,156	-
Total primary government	\$ 66,354,625	\$ 1,505,500	\$ 22,277,360	\$ -
Component units				
Osage Casinos	\$ 115,219,189	\$ 184,009,317	\$ -	\$ -
Osage LLC	14,521,952	11,678,802	-	-
Osage Home Health	811,090	670,013	-	-
Total component units	\$ 130,552,231	\$ 196,358,132	\$ -	\$ -
General revenues				
Deferred tax benefit/(expense)				
Investment income				
Other				
Transfers				
Impairment of goodwill and intangible assets				
Reversal of contingent acquisition liabilities				
Impairment of equity method investment				
Indirect cost recoveries				
Loss from discontinued operations				
Gaming distributions				
Distributions to related parties				
Total general revenues and transfers				
Change in net assets				
Net assets - beginning				
Prior period adjustments (Note 11)				
Net assets - beginning, restated				
Net assets - ending				

See Notes to Financial Statements

Osage Nation
Statement of Activities
Year Ended September 30, 2012

Functions/Programs	Primary Government			Component Units
	Net (Expense) Revenue and Changes in Net Assets			
	Governmental Activities	Business-type Activities	Total	
Governmental activities				
General government	\$ (17,982,279)	\$ -	\$ (17,982,279)	\$ -
Education	(9,361,211)	-	(9,361,211)	-
Health and human services	(5,952,458)	-	(5,952,458)	-
Community services	(319,293)	-	(319,293)	-
Culture and language	(1,767,273)	-	(1,767,273)	-
Environmental management	(351,216)	-	(351,216)	-
Housing services	(118,501)	-	(118,501)	-
Public safety	(2,125,783)	-	(2,125,783)	-
Public works	693,692	-	693,692	-
Unallocated depreciation	(672,673)	-	(672,673)	-
Total governmental activities	(37,956,995)	-	(37,956,995)	-
Business-type activities				
Properties	-	(1,926,570)	(1,926,570)	-
Other	-	(2,688,200)	(2,688,200)	-
Total business-type activities	-	(4,614,770)	(4,614,770)	-
Total primary government	(37,956,995)	(4,614,770)	(42,571,765)	-
Component units				
Osage Casinos	-	-	-	68,790,128
Osage LLC	-	-	-	(2,843,150)
Osage Home Health	-	-	-	(141,077)
Total component units	-	-	-	65,805,901
General revenues				
Deferred tax benefit/(expense)	-	-	-	(679,913)
Investment income	376,413	65,660	442,073	327,884
Other	2,403,514	3,978,426	6,381,940	(110,347)
Transfers	(687,387)	687,387	-	725,600
Impairment of goodwill and intangible assets	-	-	-	(4,020,177)
Reversal of contingent acquisition liabilities	-	-	-	1,772,078
Impairment of equity method investment	-	-	-	(350,100)
Indirect cost recoveries	4,425,210	-	4,425,210	-
Loss from discontinued operations	-	-	-	(215,225)
Receipt of property from component unit	-	5,611,248	5,611,248	-
Gaming distributions	38,871,244	-	38,871,244	(38,871,244)
Distributions to related parties	-	-	-	(50,000)
Total general revenues and transfers	45,388,994	10,342,721	55,731,715	(41,471,444)
Change in net assets	7,431,999	5,727,951	13,159,950	24,334,457
Net assets - beginning	72,075,782	6,220,355	78,296,137	90,060,210
Prior period adjustments (Note 11)	(2,649,606)	-	(2,649,606)	-
Net assets - beginning, restated	69,426,176	6,220,355	75,646,531	90,060,210
Net assets - ending	\$ 76,858,175	\$ 11,948,306	\$ 88,806,481	\$ 114,394,667

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	General Fund	Dept of Housing and Urban Dev	Dept of Health and Human Services	Department of Interior
Assets				
Cash and Cash Equivalents	\$ 40,607,188	\$ 204,056	\$ 446,199	\$ 1,581,979
Investments	25,529,795	-	-	-
Accounts receivable	19,133	44,222	613	-
Prepaid expenses	2,061	-	2,544	2,305
Due from other funds	1,512,098	-	302,728	636,924
Due from other governments	498,275	67,670	496,689	-
Total Assets	\$ 68,168,550	\$ 315,948	\$ 1,248,773	\$ 2,221,208
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 3,664,585	\$ 22,290	\$ 152,606	\$ 34,331
Accrued payroll liabilities	393,829	3,650	27,991	5,105
Due to other funds	422,405	29	6,065	-
Other accrued liabilities	136,308	45,480	-	-
Deferred revenue	535,707	-	780,519	1,612,641
Total liabilities	5,152,834	71,449	967,181	1,652,077
Fund balances				
Restricted	-	244,499	-	-
Committed	8,721,192	-	282,524	569,131
Unassigned	54,294,524	-	(932)	-
Total fund balances	63,015,716	244,499	281,592	569,131
Total liabilities and fund balances	\$ 68,168,550	\$ 315,948	\$ 1,248,773	\$ 2,221,208

See Notes to Financial Statements

Osage Nation
Balance Sheet – Governmental Funds
September 30, 2012

	Dept of Transportation	Dept of Agriculture	Other Governmental Funds	Total Governmental Funds
Assets				
Cash and Cash Equivalents	\$ 11,890,963	\$ -	\$ -	\$ 54,730,385
Investments	-	-	-	25,529,795
Accounts receivable	29,654	-	225,850	319,472
Prepaid expenses	-	-	483	7,393
Due from other funds	-	20,324	26,929	2,499,003
Due from other governments	-	399,416	238,197	1,700,247
	<u>-</u>	<u>399,416</u>	<u>238,197</u>	<u>1,700,247</u>
Total Assets	<u>\$ 11,920,617</u>	<u>\$ 419,740</u>	<u>\$ 491,459</u>	<u>\$ 84,786,295</u>
Liabilities and fund balances				
Liabilities				
Accounts payable	\$ 130,955	\$ 127,054	\$ 13,121	\$ 4,144,942
Accrued payroll liabilities	2,350	7,885	8,525	449,335
Due to other funds	-	261,788	304,146	994,433
Other accrued liabilities	-	-	-	181,788
Deferred revenue	11,462,721	7,944	8,435	14,407,967
	<u>11,462,721</u>	<u>7,944</u>	<u>8,435</u>	<u>14,407,967</u>
Total liabilities	<u>11,596,026</u>	<u>404,671</u>	<u>334,227</u>	<u>20,178,465</u>
Fund balances				
Restricted	-	16,500	199,271	460,270
Committed	324,591	-	-	9,897,438
Unassigned	-	(1,431)	(42,039)	54,250,122
	<u>-</u>	<u>(1,431)</u>	<u>(42,039)</u>	<u>54,250,122</u>
Total fund balances	<u>324,591</u>	<u>15,069</u>	<u>157,232</u>	<u>64,607,830</u>
Total liabilities and fund balances	<u>\$ 11,920,617</u>	<u>\$ 419,740</u>	<u>\$ 491,459</u>	<u>\$ 84,786,295</u>

Osage Nation
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets
Year Ended September 30, 2012

Total governmental fund balances	\$ 64,607,830
Amounts reported for governmental activities in the statement of net assets are different because capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	12,931,585
Some liabilities, including compensated absences, are not due and payable in the current period and therefore are not reported in the funds	(450,155)
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 services funds are included in governmental activities in the statement of net assets	<u>(231,085)</u>
Net assets - governmental activities, per statement of net assets	<u>\$ 76,858,175</u>

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	General Fund	Dept of Housing and Urban Dev	Dept of Health and Human Services	Department of Interior
Revenues				
Intergovernmental	\$ -	\$ 1,358,874	\$ 5,996,640	\$ 8,136,250
Program revenue	1,146,408	45,544	34,517	179,856
Indirect cost recoveries	4,425,210	-	-	-
Investment gain (loss)	269,567	498	-	151,343
Other revenue	2,355,485	2	-	-
Total revenues	8,196,670	1,404,918	6,031,157	8,467,449
Expenditures				
General government	19,425,599	-	-	384,896
Education	8,723,954	-	2,035,851	522,699
Health & Human Services	5,803,453	-	4,641,245	344,809
Community services	367,299	-	33,690	-
Culture and language	2,027,766	-	-	15,036
Environment management	310,514	-	-	6,382
Housing services	160,952	1,361,966	-	-
Public safety	1,382,391	-	-	743,391
Public works	-	-	-	6,171,246
Capital outlay	6,462,126	20,295	-	-
Total Expenditures	44,664,054	1,382,261	6,710,786	8,188,459
Revenues over (under) expenditures	(36,467,384)	22,657	(679,629)	278,990
Other financing sources (uses)				
Transfers in	2,213,724	-	768,168	83,195
Transfers out	(3,697,834)	-	(170,904)	(479,550)
Gaming distributions	38,871,244	-	-	-
Total other financing sources (uses)	37,387,134	-	597,264	(396,355)
Net change in fund balances	919,750	22,657	(82,365)	(117,365)
Fund balances, beginning of year	62,272,669	221,842	363,957	686,496
Prior period adjustments (Note 11)	(176,703)	-	-	-
Fund balances, beginning of year, as restated	62,095,966	221,842	363,957	686,496
Fund balances, end of year	\$ 63,015,716	\$ 244,499	\$ 281,592	\$ 569,131

See Notes to Financial Statements

Osage Nation
Statement of Revenue, Expenditures and Changes in Fund Balance – Governmental Funds
Year Ended September 30, 2012

	Dept of Transportation	Dept of Agriculture	Other Governmental Funds	Total Governmental Funds
Revenues				
Intergovernmental	\$ 1,790,723	\$ 3,205,187	\$ 1,680,528	\$ 22,168,202
Program revenue	70,648	16,680	11,847	1,505,500
Indirect cost recoveries	-	-	-	4,425,210
Investment gain (loss)	(52,512)	-	-	368,896
Other revenue	-	-	-	2,355,487
Total revenues	1,808,859	3,221,867	1,692,375	30,823,295
Expenditures				
General government	-	-	-	19,810,495
Education	-	-	20,803	11,303,307
Health & Human Services	-	3,312,401	1,061,652	15,163,560
Community services	-	-	-	400,989
Culture and language	-	-	-	2,042,802
Environment management	-	-	525,218	842,114
Housing services	-	-	-	1,522,918
Public safety	-	-	-	2,125,782
Public works	1,474,237	-	-	7,645,483
Capital outlay	-	-	-	6,482,421
Total Expenditures	1,474,237	3,312,401	1,607,673	67,339,871
Revenues over (under) expenditures	334,622	(90,534)	84,702	(36,516,576)
Other financing sources (uses)				
Transfers in	-	108,226	49,349	3,222,662
Transfers out	-	(1,949)	(59,811)	(4,410,048)
Gaming distributions	-	-	-	38,871,244
Total other financing sources (uses)	-	106,277	(10,462)	37,683,858
Net change in fund balances	334,622	15,743	74,240	1,167,282
Fund balances, beginning of year	(10,031)	(674)	82,992	63,617,251
Prior period adjustments (Note 11)	-	-	-	(176,703)
Fund balances, beginning of year, as restated	(10,031)	(674)	82,992	63,440,548
Fund balances, end of year	\$ 324,591	\$ 15,069	\$ 157,232	\$ 64,607,830

Osage Nation
 Reconciliation of the Statement of Revenue, Expenditures and Changes in Fund Balance of
 Governmental Funds to the Statement of Activities
 Year Ended September 30, 2012

Net change in fund balances - governmental funds \$ 1,167,282

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts:

Capital outlay	\$	871,173	
Receipt of property from component unit		5,611,248	
Depreciation expense		<u>(672,673)</u>	5,809,748

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 555,545

Compensated absences are expended as used in the governmental funds. However, they are expensed as earned on the statement of activities. In the current year, the amount earned exceeded exceeded the amount used. (100,575)

Change in net assets of governmental activities \$ 7,432,000

Osage Nation
Statement of Net Assets – Proprietary Funds
September 30, 2012

	Business-Type Activities			Totals	Governmental Activities
	Osage Properties	Revenue Tax Fund	Nonmajor Proprietary Funds		Internal Service Fund
Assets					
Current assets					
Cash and cash equivalents	\$ 223,296	\$ 1,523,350	\$ 999,218	\$ 2,745,864	\$ 34,824
Accounts receivable	-	-	166,590	166,590	-
Prepaid expenses	2,335	310	1,162	3,807	-
Inventory	-	20,097	-	20,097	-
Due from other funds	-	19	405	424	-
Total current assets	<u>225,631</u>	<u>1,543,776</u>	<u>1,167,375</u>	<u>2,936,782</u>	<u>34,824</u>
Noncurrent assets					
Capital Assets					
Land	2,051,364	-	715,000	2,766,364	-
Buildings and improvements	12,650,348	-	1,705,895	14,356,243	-
Equipment	459,451	35,659	24,943	520,053	-
Vehicles	190,273	-	-	190,273	-
Accumulated depreciation	(5,467,098)	(25,937)	(1,620,165)	(7,113,202)	-
Net capital assets	<u>9,884,338</u>	<u>9,722</u>	<u>825,673</u>	<u>10,719,733</u>	<u>-</u>
Total Assets	<u>\$ 10,109,969</u>	<u>\$ 1,553,498</u>	<u>\$ 1,993,048</u>	<u>\$ 13,656,515</u>	<u>\$ 34,824</u>
Liabilities					
Current Liabilities					
Accounts payable	\$ 75,507	\$ 10,974	\$ 54,651	\$ 141,132	\$ -
Other accrued liabilities	-	11,500	6,438	17,938	265,909
Due to other funds	2,937	1,501,510	548	1,504,995	-
Total current liabilities	<u>78,444</u>	<u>1,523,984</u>	<u>61,637</u>	<u>1,664,065</u>	<u>265,909</u>
Noncurrent liabilities					
Accrued compensated absences	<u>20,803</u>	<u>6,117</u>	<u>17,224</u>	<u>44,144</u>	<u>-</u>
Total liabilities	<u>99,247</u>	<u>1,530,101</u>	<u>78,861</u>	<u>1,708,209</u>	<u>265,909</u>
Net assets					
Invested in capital assets, net of related debt	9,884,338	9,722	825,673	10,719,733	-
Unrestricted	<u>126,384</u>	<u>13,675</u>	<u>1,088,514</u>	<u>1,228,573</u>	<u>(231,085)</u>
Total net assets	<u>\$ 10,010,722</u>	<u>\$ 23,397</u>	<u>\$ 1,914,187</u>	<u>\$ 11,948,306</u>	<u>\$ (231,085)</u>

Osage Nation
Statement of Revenue, Expenses and Changes in Net Assets – Proprietary Funds
September 30, 2012

	Business-Type Activities			Totals	Governmental
	Osage Properties	Revenue Tax Fund	Nonmajor Proprietary Funds		Internal Service Fund
Operating Revenues					
Intergovernmental	\$ -	\$ -	\$ 109,156	\$ 109,156	\$ -
Other revenue	896,993	2,069,851	1,011,582	3,978,426	6,667,225
Total operating revenues	<u>896,993</u>	<u>2,069,851</u>	<u>1,120,738</u>	<u>4,087,582</u>	<u>6,667,225</u>
Operating Expenses					
Cost of merchandise sales	-	11,608	471,772	483,380	-
Salaries and fringe benefits	540,738	323,939	1,074,230	1,938,907	-
Contractual services	1,320	-	10,000	11,320	-
Travel and training	33,702	49,514	14,065	97,281	-
Expendable equipment	8,422	44,113	18,553	71,088	-
Repairs and maintenance/occupancy	524,770	47,771	224,276	796,817	-
Tribal member assistance	-	-	45,216	45,216	-
Claims incurred	-	-	-	-	6,611,680
Indirect cost	204,928	78,466	233,555	516,949	-
Other supplies and expenses	119,047	29,196	104,595	252,838	-
Depreciation	493,643	278	16,209	510,130	-
Total Operating expenses	<u>1,926,570</u>	<u>584,885</u>	<u>2,212,471</u>	<u>4,723,926</u>	<u>6,611,680</u>
Operating income (loss)	<u>(1,029,577)</u>	<u>1,484,966</u>	<u>(1,091,733)</u>	<u>(636,344)</u>	<u>55,545</u>
Non-operating revenues (expenses)					
Receipt of property from component unit	5,611,249	-	-	5,611,249	-
Interest revenue	-	1,683	63,977	65,660	-
Total Non-operating revenues (expenses)	<u>-</u>	<u>1,683</u>	<u>63,977</u>	<u>5,676,909</u>	<u>-</u>
Income (loss) before transfers	4,581,672	1,486,649	(1,027,756)	5,040,565	55,545
Transfers					
Transfers in	916,598	27,635	1,244,663	2,188,896	-
Transfers out	-	(1,501,510)	-	(1,501,510)	500,000
Change in net assets	5,498,270	12,774	216,907	5,727,951	555,545
Total net assets (deficit), beginning of year	<u>4,512,452</u>	<u>10,623</u>	<u>1,697,280</u>	<u>6,220,355</u>	<u>(786,630)</u>
Total net assets (deficit), end of year	<u>\$ 10,010,722</u>	<u>\$ 23,397</u>	<u>\$ 1,914,187</u>	<u>\$ 11,948,306</u>	<u>\$ (231,085)</u>

Osage Nation
Statement of Net Cash Flows – Proprietary Funds
September 30, 2012

	Business-Type Activities			Totals	Governmental
	Osage Properties	Revenue Tax Fund	Nonmajor Proprietary Funds		Internal Service Fund
Operating Activities					
Cash received from customers	\$ 896,993	\$ 2,077,948	\$ 1,170,710	\$ 4,145,651	\$ 6,684,320
Cash paid to employees	(535,799)	(323,365)	(1,074,877)	(1,934,041)	-
Cash paid to suppliers	(736,182)	982,951	(1,089,630)	(842,861)	-
Cash paid for claims	-	-	-	-	(7,196,749)
Net cash (used) provided by operating activities	<u>(374,988)</u>	<u>2,737,534</u>	<u>(993,797)</u>	<u>1,368,749</u>	<u>(512,429)</u>
Investing Activities					
Interest received	-	1,683	63,977	65,660	-
Non-Capital Financing Activities					
Transfers in	916,598	27,635	1,244,663	2,188,896	500,000
Transfers out	-	(1,501,510)	-	(1,501,510)	-
Net cash (used) provided by operating activities	<u>916,598</u>	<u>(1,473,875)</u>	<u>1,244,663</u>	<u>687,386</u>	<u>500,000</u>
Capital and Related Financing Activities					
Purchase of property and equipment	(433,184)	(10,000)	(3)	(443,187)	-
Net change in cash and cash equivalents	108,426	1,255,342	314,840	1,678,608	(12,429)
Cash and cash equivalents, beginning of year	114,870	268,008	684,378	1,067,256	47,253
Cash and cash equivalents, end of year	<u>\$ 223,296</u>	<u>\$ 1,523,350</u>	<u>\$ 999,218</u>	<u>\$ 2,745,864</u>	<u>\$ 34,824</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating (loss) income	\$ (1,029,577)	\$ 1,484,966	\$ (1,091,733)	\$ (636,344)	\$ 55,545
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities					
Depreciation	493,643	278	16,209	510,130	-
Changes in working capital components					
Decrease in accounts receivable	-	8,097	49,972	58,069	353,963
(Increase) in inventory	-	(2,279)	-	(2,279)	-
Decrease in due from other funds	371,517	-	-	371,517	-
(Decrease) in accounts payable	(214,757)	(21,610)	(3,756)	(240,123)	-
Increase (decrease) in compensated absences	4,939	574	(647)	4,866	-
Increase in due to other funds	2,937	1,261,464	35,977	1,300,378	-
Decrease in unearned revenue	-	-	-	-	(336,868)
Increase (decrease) in other liabilities	(3,690)	6,044	181	2,535	(585,069)
Net cash provided (used) by operating activities	<u>\$ (374,988)</u>	<u>\$ 2,737,534</u>	<u>\$ (993,797)</u>	<u>\$ 1,368,749</u>	<u>\$ (512,429)</u>

Osage Nation
Combining Statement of Net Assets – Discretely Presented Component Units
September 30, 2012

	Osage Casinos	Osage LLC	Osage Home Health	Totals
Assets				
Current assets				
Cash and cash equivalents	\$ 56,226,959	\$ 2,489,149	\$ 221,572	\$ 58,937,680
Accounts receivable	2,313,088	522,528	87,312	2,922,928
Current portion of debt investments	-	1,500,000	-	1,500,000
Prepaid expenses	1,172,109	74,353	-	1,246,462
Inventory	647,590	1,404,397	5,000	2,056,987
Due from related parties	-	1,996,902	-	1,996,902
Total current assets	60,359,746	7,987,329	313,884	68,660,959
Noncurrent assets				
Capital Assets				
Land and land improvements	8,799,780	-	-	8,799,780
Buildings and improvements	44,463,886	92,732	-	44,556,618
Equipment	58,589,556	147,037	61,655	58,798,248
Vehicles	1,151,016	-	-	1,151,016
Accumulated depreciation	(53,651,401)	(44,511)	(42,526)	(53,738,438)
Net capital assets	59,352,837	195,258	19,129	59,567,224
Other Assets	230,982	4,092,865	-	4,323,847
Total Assets	\$ 119,943,565	\$ 12,275,452	\$ 333,013	\$ 132,552,030
Liabilities				
Current Liabilities				
Accounts payable	\$ 4,745,028	\$ 2,484,337	\$ 15,581	\$ 7,244,946
Accrued payroll liabilities	3,727,859	65,264	11,275	3,804,398
Due to related parties	-	2,253,682	-	2,253,682
Unearned revenue	-	1,312,976	-	1,312,976
Other accrued liabilities	2,029,734	62,491	-	2,092,225
Gaming liabilities	1,233,722	-	-	1,233,722
Total current liabilities	11,736,343	6,178,750	26,856	17,941,949
Noncurrent liabilities				
Other long term liabilities	-	215,414	-	215,414
Total liabilities	11,736,343	6,394,164	26,856	18,157,363
Net assets				
Invested in capital assets, net of related debt	59,352,837	195,258	19,129	59,567,224
Unrestricted	48,854,385	5,101,972	287,028	54,243,385
Non-controlling interests in component units	-	584,058	-	584,058
Total net assets	\$ 108,207,222	\$ 5,881,288	\$ 306,157	\$ 114,394,667

Osage Nation
Combining Statement of Revenue, Expenses and Changes in Net Assets – Discretely Presented Component Units
September 30, 2012

	Osage Casinos	Osage LLC	Osage Home Health	Totals
Operating Revenues				
Gaming revenue	\$ 169,531,740	\$ -	\$ -	\$ 169,531,740
Merchandise sales	5,656,961	-	-	5,656,961
Food and beverage	5,718,214	-	-	5,718,214
Charges for goods and services	-	11,280,536	667,573	11,948,109
Other revenue	3,795,665	398,266	2,440	4,196,371
Less promotional allowances	(693,263)	-	-	(693,263)
Total operating revenues	184,009,317	11,678,802	670,013	196,358,132
Operating Expenses				
Cost of goods sold	-	11,247,206	-	11,247,206
Salaries and fringe benefits	40,678,358	1,848,963	399,724	42,927,045
Contractual services	-	456,682	227,741	684,423
Travel and training	-	292,310	37,319	329,629
Repairs and maintenance/occupancy	-	195,755	33,446	229,201
Advertising	8,943,245	46,358	2,426	8,992,029
Depreciation and amortization	13,600,321	104,818	20,597	13,725,736
Gaming and related	23,580,385	-	-	23,580,385
General and administrative	9,892,795	327,297	89,837	10,309,929
Food and beverage	4,295,961	-	-	4,295,961
Compact fees	8,343,340	-	-	8,343,340
Retail	5,027,435	-	-	5,027,435
Entertainment	857,349	-	-	857,349
Miscellaneous	-	2,563	-	2,563
Total operating expenses	115,219,189	14,521,952	811,090	130,552,231
Operating income (loss)	68,790,128	(2,843,150)	(141,077)	65,805,901
Non-operating revenues (expenses)				
Interest revenue	57,468	269,849	567	327,884
Impairment of goodwill and intangible assets	-	(4,020,177)	-	(4,020,177)
Reversal of contingent acquisition liabilities	-	1,772,078	-	1,772,078
Impairment of equity method investment	-	(350,100)	-	(350,100)
Loss from discontinued operations	-	(215,225)	-	(215,225)
Distributions to related parties	(38,871,244)	(50,000)	-	(38,921,244)
Deferred tax benefit (expense)	-	(679,913)	-	(679,913)
Other income (expense)	(91,883)	707,136	-	615,253
Total non-operating revenues (expenses)	(38,905,659)	(2,566,352)	567	(41,471,444)
Change in net assets	29,884,469	(5,409,502)	(140,510)	24,334,457
Total net assets, beginning of year	78,322,753	11,290,790	446,667	90,060,210
Total net assets, end of year	\$ 108,207,222	\$ 5,881,288	\$ 306,157	\$ 114,394,667

Note 1 - Summary of Significant Accounting Policies

Organization

The Osage Nation (“the Nation”), formerly known as the Osage Tribe of Indians of Oklahoma, is composed of the descendants of persons listed on the 1906 Osage Allotment Roll. There are currently over 10,000 tribal members. The Tribe 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 offices in Pawhuska, Oklahoma.

Effective March 11, 2006, the Osage Nation of Oklahoma adopted a new constitution, duly ratified by a vote of the Osage People. The Osage Nation Congress and Executive Officers assumed operational control formerly known as the Osage Tribe of Indians of Oklahoma on July 1, 2006. The governing body of the Osage Nation is vested in three (3) separate branches: the Legislative, the Executive and the Judicial. The Legislative branch consists of twelve (12) elected representatives elected at large. The Executive branch provides the executive power of the Osage Nation and consists of a Principal Chief and an Assistant Principal Chief. The Executive branch includes a Department of the Treasury. The Judicial branch provides the judicial powers of the Osage Nation these powers are vested in one Supreme Court, a lower Trial Court and in such inferior Courts as the Osage Nation Congress may ordain and establish. The voting members of the Tribe elect the Osage Nation Congress representatives every four years. The Osage Nation Congress’ primary responsibility is to draft the laws for the Nation.

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

Reporting Entity

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

- All governmental offices and departments of the Osage Nation.
- Enterprises of the Osage Nation, including Osage Casinos, Osage LLC, and Osage Home Health.

In evaluating how to define the Osage Nation, for financial reporting purposes, management has considers 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 the governing body’s ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability the exercise oversight responsibility include, but are not limited to, the selection of governing authority and the designation of management.

For each entity determined to be a component unit of the Osage 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. The blended component unit merges or aggregates with the primary government.

The Nation has three discretely presented component units, Osage Casinos, Osage LLC, and Osage Home Health.

Osage Casinos – Osage Casinos operates casinos in Tulsa, Sand Springs, Hominy, Pawhuska, Bartlesville, Ponca City, and Skiatook, Oklahoma. Osage Casinos also operates the Osage Travel Plaza and maintains a Central Office for supporting the operations.

Osage LLC – Osage LLC (“Osage”) was formed on April 14, 2008 as a single member LLC with the Osage Nation as its sole member to manage its business activities separate from the affairs of Tribal Government. In 2009, the Osage Nation contributed a grocery store in Fairfax, Oklahoma, a gift shop and a technology services business in Pawhuska, Oklahoma, and a 110 acre commercial and industrial development property (“airpark”) in Tulsa, Oklahoma. In 2012, the assets of the airpark were transferred back to the Osage Nation. The net assets and operation of the airpark, grocery store and gift shop are reflected as discontinued operations within these financial statements.

Osage Home Health – Osage Home Health operates the Home Health services for the Osage Nation. The accompanying financial statements include Osage Casinos, and Osage LLC, component units which have year ends of September 30th, and December 31st respectively. Osage Casinos was audited as of September 30, 2012 in accordance with auditing standards generally accepted in the United States of America. Osage LLC was audited as of December 31, 2012 in accordance with auditing standards generally accepted in the United States of America. Each of the component units has a separate audit report, available upon request from the Treasury Department.

The accompanying financial statements include Osage Home Health, as of September 30, 2012, a component unit which was audited with the primary government.

Basis of Presentation

Financial Statements

The basic financial statements of the Osage Nation include the government-wide and the fund financial statements. The focus is on the Nation as a whole in the government-wide financial statements, while reporting additional and detailed information about the Nation’s major governmental and business-type activities in the fund financial statements.

Government-Wide Financial Statements

The government-wide statement of net assets 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, and distributions from the Osage Casinos (“the Casinos”). During the year ended September 30, 2012, distributions from the Casinos amounted to \$38,871,244.

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 are then adjusted for general revenues and transfers to determine the change in net assets 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, proprietary, and fiduciary 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 award 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 required to be accounted for in another fund.

Department of Housing and Urban Development – This fund accounts for the resources received by the Nation to provide housing programs to tribal members.

Department of Health and Human Services – This fund accounts for the resources received by the Nation to provide health and welfare programs to tribal members.

Department of Interior – This fund accounts for the resources received by the Nation to provide social service and general assistance programs to tribal members.

Department of Agriculture – This fund accounts for the resources received by the Nation to provide nutrition and food to tribal members.

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

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 Osage Nation on a cost reimbursement basis.

The Nation reports the following major enterprise funds:

Osage Properties – Osage Properties provides janitorial and maintenance services for the Nation as accounting for land acquisitions.

Revenue Tax Commission (Revenue Tax Fund) – The Osage Nation Revenue Tax Commission is responsible for the levy and collection of certain taxes within the Osage Nation jurisdiction. The Revenue Tax Commission issues Motor Vehicle registrations, levies sales and tobacco tax and licenses vendors to do business with Osage Nation. The Commission is comprised of members appointed by the Principal Chief and confirmed by Congress.

The Nation reports the following major component units:

Osage Casinos – Osage Casinos operates casinos in Tulsa, Sand Springs, Hominy, Pawhuska, Bartlesville, Ponca City, and Skiatook, Oklahoma. Osage Casinos also operates the Osage Travel Plaza and maintains a Central Office for supporting the operations.

Osage LLC – Osage LLC operates the economic development activities of the Osage Nation.

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

Basis of Accounting and Measurement Focus

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under this method revenue is recorded when earned and expenses are recorded when liabilities are incurred, regardless of when the related cash flow takes place. Non-exchange transactions, in which the Nation gives (or receives) value without directly receiving (or giving) equal value in exchange, include interest, 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 revenue and expenses not meeting these definitions are reported as non-operating revenue 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 sixty 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 present 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. Osage LLC recognized revenue on service contracts ratably over applicable contract period or as services are performed. Amounts billed and collected before the services are performed are included in deferred revenues.

The financial statements of the Nation conform with accounting principles generally accepted in the United States of America (GAAP) applicable to government units. The Governmental Accounting Standards Board (GASB) is the standard-setting body for the governmental accounting and financial reporting GASB statements and interpretations constitute GAAP for governments, including Indian Tribes. As permitted by GASB Statement 20, the Nation has elected not to implement pronouncements of the Financial Accounting Standards Board (FASB) issued to subsequent to November 30, 1989, in the accounting for business-type activities and enterprise funds.

Cash and Cash Equivalents

The Nation considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

Inventory

Business-type Activities and Proprietary funds:

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

Discretely presented component units:

Osage Casinos' inventories are valued at the lower of cost or market and consist of primarily of tobacco, food, and beverages. Cost is determined by the first-in, first out method

Investments

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

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 is 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 as follows:

Governmental Activities and Business-type Activities:

<u>Asset Category</u>	<u>Capitalization Threshold</u>	<u>Years</u>
Building and improvements	\$10,000	25
Machinery and equipment	10,000	10
Vehicles and mobile Equipment	10,000	5

Depreciation is provided using the straight-line method over estimated useful lives.

Discretely Presented Component Units:

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

Internal Balances

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

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

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Accordingly, actual results could differ from those estimates. Significant estimates include estimated useful lives of capital assets.

Compensated Absences

Employees accrued vested annual vacation leave at a variable rate based on years of service. It is the Nation’s policy to liquidate unpaid annual vacation leave September 30th from future sources rather than currently available expendable resources. Accordingly, governmental funds recognize annual leave when it is paid. Compensated absences liability at September 30, 2012 totaled \$450,155 for governmental activities. This amount is recorded in the government-wide Statement of Net Assets and is a reconciling item between the government-wide Statement of Net Assets and the governmental activities Statement of Net Assets. Employees accrue vested annual sick leave at the rate of (4) four hours per pay period. However, sick leave credit is not paid to an employee upon separation. Therefore, sick leave has no monetary value for accrual purposes.

Accrual policies for compensated absences are as follows:

Benefit Type	Tenure/years	Hours per pay period
Vacation	0 - 3	4
Vacation	3 - 15	6
Vacation	15 or more	8

Federal and State Income Taxes

The Osage 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.

Discretely presented component units:

Osage LLC is considered to be part of the Osage Nation, and it is not liable for federal and state income taxes. However, in 2011, Osage LLC acquired a taxable entity and as such has recognized a deferred tax asset for the anticipated future tax consequences attributable to differences between financial statement amounts and their respective tax bases, using enacted tax rates to be in effect when the differences are expected to reverse. Deferred taxes are recognized for operating issues that are available to offset future income taxes. A valuation allowance is recorded to reduce deferred tax assets to an amount that will more than likely not be recognized.

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 17.64% was charged to all contributing programs based on salaries and related fringe benefit costs. This rate was negotiated with the National Business Center, U.S. Department of the Interior.

Accounts Receivable

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

Fund Equity

Beginning with fiscal year 2011, the financial statements have been presented in accordance with the new reporting model required by GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions. The intention of the Statement is to provide a more structured classification of fund balance and to improve the usefulness of fund balance reporting to the users of the financial statements. The reporting standard establishes a hierarchy for fund balance classifications and the constraints imposed on the uses of those resources.

GASB Statement No. 54 provides for two major fund balances, which are non-spendable and spendable. Non-spendable fund balances are balances that cannot be spent because they are not expected to be converted to cash or they are legally or contractually required to remain intact, such as inventories, and prepaid amounts.

In addition, to the non-spendable fund balance, GASB Statement No. 54 has provided a hierarchy of spendable fund balances based on a hierarchy of spending constraints.

Restricted – fund balances that are restricted for specific purposes stipulated by external parties, constitutional provisions, or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed – fund balances that can only be used for the specific purposes determined by a formal action of the Nation’s highest level of decision-making authority, the Osage Nation Congress. Commitments may be changed or lifted only by the Nation taking the same formal action that imposed the constraint originally (for example a resolution or ordinance).

Assigned – fund balances that are intended to be used by the Nation for specific purposes that are neither restricted nor committed. Intent is expressed by (a) Treasurer (b) an appointed body or official to which the Nation has delegated the authority to assign, modify, or rescind amounts to

be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts) that are not classified as nonspendable, restricted or committed. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment within the general fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the Nation itself.

Unassigned – fund balances of the general fund that is not constrained for any particular purposes. It is also the residual classification for all negative fund balances.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – this amount is restricted by external creditors, grantors, contributors, law or regulations of other governments, enabling legislation, or constitutional provisions.

Unrestricted Net Assets – this amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

Fair Value of Financial Instruments

The following methods and assumptions were used to estimate the fair value of each class of financial instrument: Accounts and loans receivable, interfund receivables and payables, accounts payables, and accrued liabilities: The carrying amount approximates fair value because of the short maturity of those instruments.

Due from other Governments

Due from other governments represent 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, 2012 amounted to \$1,700,247.

Deferred Revenue/Unearned Revenue

Deferred 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. Unearned revenue represents a timing difference for amounts received in advance from other entities. Deferred and unearned revenue as of September 30, 2012 amounted to \$14,407,967.

Reclassifications

Certain amounts in the prior periods have been reclassified to conform to the current period financial statement presentation. These reclassifications have not effect on previously reported net assets.

Note 2 - Cash and Cash Equivalents

The Nation reports the following deposits as of September 30, 2012:

Governmental activities:	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand Deposits	\$ 13,938,144	\$ 16,751,332
Time and Savings Account	34,171,376	34,171,375
Money Market funds	6,616,120	6,616,120
Cash on Hand	<u>4,745</u>	<u>-</u>
Total for governmental funds	<u>\$ 54,730,385</u>	<u>\$ 57,538,827</u>
Demand Deposits	<u>34,824</u>	<u>407,964</u>
Total	<u>\$ 54,765,209</u>	<u>\$ 57,946,791</u>
 Business-type activities:		
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand Deposits	\$ 2,378,404	\$ 2,781,332
Time and Savings Account	367,160	367,135
Cash on Hand	<u>300</u>	<u>-</u>
Total	<u>\$ 2,745,864</u>	<u>\$ 3,148,467</u>
 Discretely presented component units:		
	<u>Carrying Amount</u>	<u>Bank Balance</u>
Demand Deposits	\$ 42,852,115	\$ 43,515,206
Cash on Hand	<u>16,085,565</u>	<u>-</u>
Total	<u>\$ 58,937,680</u>	<u>\$ 43,515,206</u>

Custodial Credit Risk – 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. Interest-bearing bank accounts held in financial institutions are insured by the Federal Deposit Insurance Corporation (“FDIC”), up to \$250,000 for each financial institution. All funds in noninterest-bearing accounts are insured in full by the FDIC through September 30, 2012.

Governmental activities, fiduciary funds and business-type activities:

All bank balances were collateralized or insured as of September 30, 2012.

Discretely presented component units:

All component unit bank balances were collateralized or insured.

Note 3 - Investments

Governmental activities:

The Nation reports the following investments as of September 30, 2012:

	Fair Value
Money Market Mutual Funds	\$ 25,029,769
Land	500,026
Total	\$ 25,529,795

Credit Risk

The Nation had no investment policy which limited its investment choices with regard to credit rating.

Discretely presented component units:

Notes receivable and other debt securities	\$ 2,100,000
Equity method investments	413,547
Cost method investments	1,734,524
Total	4,248,071
Current portion notes receivable	1,500,000
Long term investments	\$ 2,748,071

Note 4 - Interfund Activity

Interfund balances are summarized as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Purpose</u>	<u>Total</u>
General Fund	Dept of Housing and Urban Development	Payroll	\$ 29
General Fund	Dept of Agriculture	Payroll	500
General Fund	Dept of Health and Human Services	Payroll	6,064
General Fund	Non-major governmental	Payroll	510
General Fund	Revenue Tax	Tax Commission residual	1,501,510
General Fund	Osage Properties	Program Appropriations	2,937
General Fund	Non-major proprietary	Payroll	548
Dept of Health and Human Services	General Fund	Program Appropriations	302,728
Dept of Interior	General Fund	Program Appropriations	72,000
Dept of Interior	Dept of Agriculture	Program Appropriations	261,288
Dept of Interior	Non-major governmental	Program Appropriations	303,636
Dept of Agriculture	General Fund	Program Appropriations	20,324
Non-major governmental	General Fund	Program Appropriations	26,929
Revenue Tax	General Fund	Program Appropriations	19
Non-major proprietary	General Fund	Program Appropriations	405

All amounts will be repaid within a year.

Transfers are summarized as follows:

	Transfer from					
	General Fund	Dept of Health and Human Services	Department of Interior	Dept of Agriculture	Other Governmental Funds	
Transfer to:						
General Fund	\$ -	\$ 170,904	\$ 479,550	\$ 1,949	\$ 59,811	\$ 1,501,510
Depart of Health and Human Services	768,168	-	-	-	-	-
Department of Interior	83,195	-	-	-	-	-
Department of Agriculture	108,226	-	-	-	-	-
Other Gov't Funds	49,349	-	-	-	-	-
Osage Properties	916,598	-	-	-	-	-
Revenue Tax	27,635	-	-	-	-	-
Non-major proprietary	1,244,663	-	-	-	-	-
Internal service fund	500,000	-	-	-	-	-

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 legislative act to meet cash match requirements or to supplement funding for programs. Revenue Tax Commission transfers residual income to the General fund annually. The Revenue Tax Commission residual for FY2012 transferred to General fund was \$1,501,510.

Note 5 - Capital Assets

Capital assets activity for the year ended September 30, 2012, is summarized as follows:

Governmental activities:

	Beginning Balance 10/1/2011	Prior Period Adjustments	Additions	Disposals	Ending Balance 9/30/2012
Capital assets not being depreciated					
Land	\$ 2,541,210	\$ (2,521,210)	\$ 5,724,297	\$ -	\$ 5,744,297
Capital assets being depreciated					
Buildings	9,409,473	52,250	-	-	9,461,723
Equipment	598,529	18,955	372,497	-	989,981
Vehicles	2,301,683	(15,329)	385,627	-	2,671,981
Total capital assets being depreciated	12,309,685	55,876	758,124	-	13,123,685
Less accumulated depreciation					
Buildings	(3,081,293)	(221)	(361,130)	-	(3,442,644)
Equipment	(310,618)	(6,845)	(107,976)	-	(425,439)
Vehicles	(1,864,244)	(503)	(203,567)	-	(2,068,314)
Total accumulated depreciation	(5,256,155)	(7,569)	(672,673)	-	(5,936,397)
Net capital assets	\$ 9,594,740	\$ (2,472,903)	\$ 5,809,748	\$ -	\$ 12,931,585

Depreciation expense of \$672,673 was unallocated on the statement of activities.

Beginning balances on depreciable capital assets have been restated (See Note 11).

Business-type activities:

	Beginning Balance 10/1/2011	Transfer from Component Unit (LLC)	Additions	Ending Balance 9/30/2012
Capital assets not being depreciated				
Land	\$ 2,227,164	\$ 539,200	\$ -	\$ 2,766,364
Capital assets being depreciated				
Buildings	8,847,938	5,111,077	397,229	14,356,244
Equipment	232,077	242,016	45,959	520,052
Vehicles	190,273	-	-	190,273
Total capital assets being depreciated	9,270,288	5,353,093	443,188	15,066,569
Less accumulated depreciation				
Buildings	(6,061,031)	(270,755)	(447,693)	(6,779,479)
Equipment	(108,549)	(10,290)	(46,164)	(165,003)
Vehicles	(152,445)	-	(16,273)	(168,718)
Total accumulated depreciation	(6,322,025)	(281,045)	(510,130)	(7,113,200)
Net capital assets	<u>\$ 5,175,427</u>	<u>\$ 5,611,248</u>	<u>\$ (66,942)</u>	<u>\$ 10,719,733</u>

Discretely presented component units:

	Beginning Balance	Additions	Retirements	Transfers	Ending Balance
Capital assets not being depreciated					
Land	\$ 1,832,083	\$ 1,597,994	\$ -	\$ -	\$ 3,430,077
Construction in progress and assets not in service	1,616,023	2,632,119	-	(1,531,997)	2,716,145
Capital assets not being depreciated	3,448,106	4,230,113	-	(1,531,997)	6,146,222
Capital assets being depreciated					
Land improvements	4,829,871	507,917	-	31,916	5,369,704
Building and leasehold improvements	31,820,898	9,099,860	-	919,715	41,840,473
Equipment and fixtures	50,264,499	8,247,072	(287,804)	574,481	58,798,248
Vehicles	900,111	231,608	-	19,297	1,151,016
Total capital assets being depreciated	87,815,379	18,086,457	(287,804)	1,545,409	107,159,441
Less accumulated depreciation					
Land improvements	(2,072,915)	(413,874)	-	-	(2,486,789)
Building and leasehold improvements	(9,580,568)	(2,118,498)	-	-	(11,699,066)
Equipment and fixtures	(28,112,301)	(10,950,189)	194,389	-	(38,868,101)
Vehicles	(503,282)	(167,789)	-	(13,412)	(684,483)
Total accumulated depreciation	(40,269,066)	(13,650,350)	194,389	(13,412)	(53,738,439)
Net capital assets	<u>\$ 50,994,419</u>	<u>\$ 8,666,220</u>	<u>\$ (93,415)</u>	<u>\$ -</u>	<u>\$ 59,567,224</u>

Note 6 - Other Assets

Discretely presented component units:

Osage LLC had other long-term assets as follows:

Investments	\$ 2,748,071
Other assets	40,987
Goodwill	868,806
Intangible assets, net	<u>435,001</u>
 Total Other Assets	 <u><u>\$ 4,092,865</u></u>

Note 7 - Impairment of Goodwill and Intangible Assets

Discretely presented component units

In 2013, Osage LLC management decided to discontinue the operations of Echota after completing any contracts currently in progress. The LLC recorded an impairment of goodwill of \$2,851,000 and \$424,000 for other intangibles related to the Echota operation. In addition, the LLC recorded a reversal of contingent acquisition liabilities related to the Echota acquisition totaling \$1,772,078.

The LLC management determined that goodwill related to the AVS acquisition was impaired. An impairment loss of \$745,000 was recorded to reflect the goodwill balance at estimated fair value. Such impairment is based on management estimates that are subject to change and may result in additional charges in the future.

For 2012, the total impairment of goodwill and other intangibles was \$4,020,177, offset by a reversal of contingent acquisition liabilities of \$1,772,078. In addition, the LLC recognized an impairment loss related to equity method investments of \$350,100.

Note 8 - Noncurrent Liabilities

Changes in compensated absences and long-term debt for the year ended September 30, 2012, were as follows:

	Balance 10/1/2011	Additions	Reductions	Balance 9/30/2012	Due Within One Year
Governmental Activities					
Compensated absences	<u>\$ 349,579</u>	<u>\$ 450,155</u>	<u>\$ (349,579)</u>	<u>\$ 450,155</u>	<u>\$ 450,155</u>
Business-type activities					
Compensated absences	<u>\$ 39,278</u>	<u>\$ 44,144</u>	<u>\$ (39,278)</u>	<u>\$ 44,144</u>	<u>\$ 44,144</u>

Note 9 - 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 \$100,000 annually (with the exception of one individual who has an additional \$25,000 specific deductible) or aggregate claims exceeding \$8,571,000. The insurance contract runs November 1 through October 31 of the next fiscal year. Operations are charged with the cost of claims reported less stop-loss reimbursement received. No claims were eligible for aggregate reimbursement under the program for the fiscal year ended September 30, 2012.

Component units of the Nation also participate in the employee health benefit plan. Each component unit funds the cost of coverage for the respective employees. The Nation bills the component units for claims as the claims are paid.

The Nation's reported employee health claims liability of \$265,909 at September 30, 2012, 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 probably that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. This liability includes all open claims for the health plan.

The claims liability has been estimated based upon open claims at September 30, 2012. 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:

	Beginning Balance 10/1/2011	Incurred Claims	Claim Payments	Ending Balance 9/30/2012
<u>Governmental Activities:</u>				
Health claims liability	\$ 850,978	\$ 6,611,680	\$ (7,196,749)	\$ 265,909

Note 10 - Risk Management

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

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

A variety of methods is 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 are unknown.

Note 11 - Restatements Due to Prior Period Adjustments

During the current year, management determined that certain assets and liabilities were not properly recorded as of September 30, 2011. The following is a summary of the corrections made:

	Governmental Activities	General Fund	Fiduciary Fund
Beginning net assets/fund balance, as previously reported	\$ 72,075,782	\$ 62,272,669	\$ 6,691
Correction of errors:			
Overstated capital assets, net of accumulated depreciation	(2,472,903)	-	-
Understated net assets - Fiduciary Fund	6,691	6,691	(6,691)
Understated deferred revenue, General Fund	(183,394)	(183,394)	-
Beginning net assets/fund balance, as restated	\$ 69,426,176	\$ 62,095,966	\$ -

Capital assets net of accumulated depreciation – As a result of reviewing capital assets inventory for implementation of a fixed asset tracking system, it was discovered that land values had been overstated beginning with the FY2007 audit report by \$2,521,210. The issue was discovered and corrected in FY2012 as a prior period adjustment. Several assets and the related accumulated depreciation had minor differences, totaling \$48,307 and are reflected in the prior period adjustment.

Fiduciary Fund – The FY2011 audit report included the Employee Club as a fiduciary fund. Subsequent to the issuance of the report, it was determined the Employee Club should be classified as a program within the General Fund. The net assets of \$6,691 are reflected as a prior period adjustment on the Statement of Activities beginning net assets. This was the only fiduciary fund presented in the prior year and no fiduciary funds are presented in the current year.

General Fund – The FY2011 audit report included \$183,394 in fund balances from FY2009 and FY2010 for items that were improperly classified that should have been recorded as deferred revenue. The amount of \$183,394 has been properly classified as deferred revenue for FY2012.

Note 12 - Deficit Fund Balance

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

Department of Health and Human Services		
Child Support Benefits	\$	490
Target Capacity		45
Temporary Assistance to needy Families		<u>397</u>
Total Department of Health and Human Services deficit fund balance	\$	<u>932</u>
Department of Agriculture		
Senior Farmers Market	\$	<u>1,431</u>
Nonmajor funds:		
Grant to Indian Tribal Governments	\$	8,493
Trans Scenic Byway		30,706
CPA/UIC		2,143
CPA Air Quality Program		300
TANF		<u>397</u>
Total nonmajor funds deficit fund balances	\$	<u>42,039</u>

Note 13 - Fund Equity

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

	<u>General Fund</u>	<u>Dept of Housing and Urban Dev</u>	<u>Dept of Health and Human Services</u>	<u>Department of Interior</u>	<u>Dept of Transportation</u>	<u>Dept of Agriculture</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Restricted for purpose specified in the grant agreement	\$ -	\$ 244,499	\$ -	\$ -	\$ -	\$ 16,500	\$ 199,271	\$ 460,270
Committed								-
Program Purposes	\$ -	\$ -	\$ 282,524	\$ 569,131	\$ 324,591	\$ -	\$ -	\$ 1,176,246
Burial assistance	374,955	-	-	-	-	-	-	374,955
Education Scholarships	3,287,826	-	-	-	-	-	-	3,287,826
Health Benefits	2,228,324	-	-	-	-	-	-	2,228,324
Restricted Property Purchase	1,007,647	-	-	-	-	-	-	1,007,647
Osage War Memorial	500,000	-	-	-	-	-	-	500,000
Regional Gathering Fund	24,005	-	-	-	-	-	-	24,005
Codification Fund	818	-	-	-	-	-	-	818
Encumbrances	1,297,617	-	-	-	-	-	-	1,297,617
Total Committed	<u>\$ 8,721,192</u>	<u>\$ -</u>	<u>\$ 282,524</u>	<u>\$ 569,131</u>	<u>\$ 324,591</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,897,438</u>
Unassigned								
General Fund	\$ 54,294,524	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54,294,524
Special Revenue	-	-	(932)	-	-	(1,431)	(42,039)	(44,402)
Total Unassigned	<u>\$ 54,294,524</u>	<u>\$ -</u>	<u>\$ (932)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (1,431)</u>	<u>\$ (42,039)</u>	<u>\$ 54,250,122</u>

The Nation currently has no funds classified as Nonspendable or Assigned.

Note 14 - Retirement Plan

Governmental, Fiduciary funds, and Business-type activities:

Effective March 19, 2010, the Nation entered into a 401(k) plan administered by John Hancock. The Nation will match up to 5% of each employee's actual compensation. Employee contributions are allowed up to the annual limits as established by the Internal Revenue Service. The employee is 100% vested in the 401(k). Contributions made by the employees to the 401(k) for the year ended September 30, 2012 were \$527,493. Contributions made by the Nation to the 401(k) for the employees for the year ended September 30, 2012 were \$404,627.

Discretely presented component units:

Osage Casinos has a defined contribution 401(k) Plan which covers employees who are 21 years old and have completed 3 months of service. Osage Casino matches contributions up to 5% of an employee's compensations. Employer contributions were \$819,668 and employee contributions were \$892,366.

Osage LLC has a defined contribution 401(k) plan which covers regular full-time employees of Osage LLC. Osage LLC matches 100% of the employees first 5% contributed to the plan. Contributions made by the Osage LLC totaled \$21,268.

Note 15 - Related Party Transactions

Governmental activities

Osage Casinos and Osage LLC are component units of the Osage Nation. At September 30, 2012, the Nation had a receivable from Osage Casinos for \$4,184,199 for its share of the Casino profits. During the year ended September 30, 2012, the Nation transferred \$5,000,000 to Osage LLC for its share of Tribal appropriations.

Discretely presented component units:

Osage Casinos participates in the Nation's self-insured employee medical insurance program. Employee health insurance benefits paid by the Osage Casinos to the Nation amounted to \$4,291,228. In additions, payments were made to various entities of the Nation and/or entities affiliated with the Nation as follows: Osage Manhattan Builders \$9,323,558; various enterprises and programs of the Nation, \$520,554.

Osage LLC – In 2009 the Osage Nation contributed \$5,928,406, of which \$5,285,000 represented the fair value of the airpark. In December 2011, this property was transferred back to the Osage Nation at its net book value of \$5,611,248.

Note 16 - Contingent Liabilities and Commitments

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

The Nation completed an internal investigation regarding improper certification of certain participants in the Women, Infants and Children (WIC) program resulting in the improper disbursement of federal funds to these participants for an unknown period of time. The funding agency was notified and is currently performing a review of the program. The total questioned costs related to the improper certifications are unknown due to the ongoing review. This grant and related activity is recorded in the Department of Agriculture governmental fund.

The Nation completed an internal review of a Department of Justice grant program. Based on the review, the special conditions of the grant required prior approval from the agency for certain types of expenditures from the award and was not obtained. The total questioned costs for the special condition expenditures are estimated to be \$56,155. For fiscal year 2012, a liability has been recorded for the anticipated payback to the Department of Justice in the amount of \$56,155. The Nation has provided the results of the internal review to the granting agency and awaits instructions on the repayment of this amount. This grant is recorded in the Other Governmental funds.

During FY2012, an investigation of potential fraud was initiated for the Pawhuska Indian Village. The U.S Act of 1906 as mended by the 1938 Act (CFR §91.3) set aside certain property for the exclusive use of Osage Indians. The Pawhuska Village is a separate entity with a governing board separate and apart from Osage Nation. The financial activities of the Pawhuska Indian Village are not a part of the financial statements of Osage Nation. The investigation is ongoing and all information has been turned over to the US attorney for appropriate action.

Note 17 - Subsequent Events

Osage Casinos entered into a loan agreement with a financial institution for lending for two loan structures for construction projects and an operating line of credit. The construction loan agreement consisted of funding for new facilities in the amount of \$27.1 million. The term of the revolver loan is five years. The line of credit agreement in the amount of \$10 million is to be utilized for operating and capital cash flow needs. The term of the line of credit is five years.

The Osage Nation Congress approved a resolution December 6, 2012 to borrow up to \$10 million for implementation of the Master Campus plan construction. As of June 27, 2013, no funds have been borrowed.