

# **Osage Nation**

Auditor's Report and Financial Statements

September 30, 2014





**Osage Nation**  
**September 30, 2014**

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Osage Nation (the Nation) as of and for the year ended September 30, 2014, and the related notes to the basic financial statements, which collectively comprise the Nation's basic financial statements listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Osage Casinos (the Casinos), which is a discretely presented component unit of the Nation. The financial statements of the Casinos, which collectively comprise approximately 92.8% of total assets and 99.4% of total operating revenues of the aggregate discretely presented component units, were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Casinos, is based solely on the report of the other auditors. 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 Casinos, a component unit included in the financial statements of the aggregate discretely presented component units, were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we and the other auditor's express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

### ***Opinions***

In our opinion, based on our audit and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the Osage Nation as of September 30, 2014, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of Matter***

As discussed in *Note 1* to the financial statements, in 2014, the Nation changed its reporting entity to include the assets and activities of the Pawhuska, Hominy and Gray Horse Indian villages. Our opinions are 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 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.

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

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated June 8, 2015, on our consideration of the Nation's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Nation's internal control over financial reporting and compliance.

*BKD, LLP*

Tulsa, Oklahoma  
June 8, 2015

# Osage Nation

## Management's Discussion and Analysis

### Year Ended September 30, 2014

This management's discussion and analysis (MD&A) of the Osage Nation's (the Nation) fiscal year 2014 financial statements is provided to give an overview of the Nation's financial activities for fiscal year 2014. The information in this MD&A should be read in conjunction with the Nation's financial statements, including the notes to the financial statements. All amounts are expressed in thousands of dollars.

#### ***Financial Highlights***

The Nation has reported a change in reporting entity during the current year (beginning net position has been restated) resulting in the reclassification and inclusion of the assets and activities of three Indian villages in Pawhuska, Hominy and Gray Horse under Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. These villages were previously not reported in the governmental activities of the Nation. The amounts in the MD&A have been updated for both 2013 and 2014 to reflect the change for comparison purposes.

- The assets of the Nation exceeded its liabilities at the close of fiscal year 2014 by \$242,785. Of this amount, \$198,165 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 \$14,549 from the prior fiscal year, of which \$11,690 is due to a net increase in equity investments and equity in component units.
- The Nation's governmental funds reported combined fund balances of \$62,625, an increase of \$1,377 from the prior year.
- The Nation maintains a permanent reserve of \$30,000. The funds cannot be spent without action by the Osage Nation Congress.
- The Nation entered into a loan agreement of \$10,000 to fund the construction of new facilities to house governmental operations.
- The Nation started construction of new facilities to house governmental operations. The facilities are expected to be completed mid-year 2015.

#### ***Overview of the Financial Statements***

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

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

## ***Government-Wide Financial Statements***

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

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

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

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

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

## ***Fund Financial Statements***

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

- **Governmental funds** – Most of the services provided by the Nation are financed and reported through the governmental funds. The fund financial statements focus on cash and other financial assets that can readily be converted to cash flow in and out and the balances remaining at year-end are available for spending. The governmental fund statements provide a detailed short-term view that allows the reader to easily determine whether there are more or fewer resources that can be spent in the near future to finance the Nation's programs. Because the fund statements do not include the long-term assets and debts of the government, reconciliation is provided that explains the differences between the fund and government-wide statements.

- **Proprietary funds** – These funds are used to report activities which operate similar to private-sector enterprises. These funds charge fees for goods and services provided to customers and provide the same type of information as the business-type activities in the government-wide financial statements. Proprietary fund financial statements utilize the full accrual basis of accounting and, therefore, no reconciliation is needed between the proprietary fund financial statements and the business-type government-wide financial statements. The Nation utilizes two types of proprietary funds:
  - Enterprise funds are used to report the same functions as presented in the business-type activities in the government-wide financial statements, but with more detailed information, such as cash flow.
  - Internal service funds are used to report activities that provide goods or services to all of the Nation’s programs. There is one internal service fund which is used to provide information about the Nation’s self-funded employee health plan.

### **Notes to the Financial Statements**

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 24.

### **Government-Wide Financial Analysis**

As of September 30, 2014, the Nation’s combined net position was \$242,786. Total assets increased \$27,855 (11%) and total liabilities increased \$13,307 (71%). The net position of governmental activities increased \$14,358 (7%) in 2014. The net position of business-type activities increased slightly by \$191 (2%).

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2013</b>		<b>2013</b>		<b>2013</b>	
	<b>2014</b>	<b>As Restated</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>As Restated</b>
Current and other assets	\$ 83,538	\$ 78,711	\$ 2,144	\$ 1,662	\$ 85,682	\$ 80,373
Capital assets	31,249	19,960	9,911	10,344	41,160	30,304
Investment in Osage, LLC	3,807	5,246	-	-	3,807	5,246
Equity interest in component units	144,301	131,172	-	-	144,301	131,172
<b>Total assets</b>	<b>262,895</b>	<b>235,089</b>	<b>12,055</b>	<b>12,006</b>	<b>274,950</b>	<b>247,095</b>
Current and other liabilities	31,928	18,480	236	378	32,164	18,858
<b>Total liabilities</b>	<b>31,928</b>	<b>18,480</b>	<b>236</b>	<b>378</b>	<b>32,164</b>	<b>18,858</b>
<b>Net position</b>						
Net investment in capital assets	27,520	19,568	9,911	10,200	37,431	29,768
Restricted	7,190	1,732	-	-	7,190	1,732
Unrestricted	196,257	195,309	1,908	1,428	198,165	196,737
<b>Total net position</b>	<b>\$ 230,967</b>	<b>\$ 216,609</b>	<b>\$ 11,819</b>	<b>\$ 11,628</b>	<b>\$ 242,786</b>	<b>\$ 228,237</b>

The unrestricted net position (\$196,257) is available to meet future obligations of the Nation. This includes the Nation’s equity interests in component units (\$144,301) and equity in the Nation’s businesses (\$3,807).

**Changes in Net Position of the Nation** – The Nation’s total revenues decreased \$12,242 (12%) in 2014. The decreases were primarily in equity in component units (\$9,531) and decreases in operating grants and contributions (\$2,941).

Total expenses for the governmental activities increased \$855 (1%) to \$68,013. The Nation’s expenses cover a wide range of services, including health and human services, housing, language and culture, education, public safety, public works and general government. The significant changes were:

- General government expenses increased \$2,485 (11%). The increase is primarily due to increased program expenditures as well as increased investments in technology and software.
- Education expenses increased \$247 (2%) primarily in scholarships (\$200). The Nation provides higher education scholarships to all eligible members out of tribal discretionary funds.
- Health and human services expenses decreased \$587 to \$15,330 primarily in the Women, Infants and Children program (\$315). Several other programs had small decreases in expenses from 2013.
- Community services expenses increased by \$151 (34%). The increase is primarily due to an increase in burial assistance payments (\$171).
- Environmental management expenses increased by \$465 (30%), primarily related to a new hydrology study which began in 2013.
- Public works expenses decreased by \$2,742 (32%), primarily due to completion of more roads projects in 2013 versus 2014.

Below is a summary of changes in net position for 2014 compared to 2013:

	Governmental Activities		Business-Type Activities		Total	
	2013		2013		2013	
	2014	As Restated	2014	2013	2014	As Restated
<b>Revenues</b>						
Program revenues						
Charges for services	\$ 2,261	\$ 1,750	\$ 1,563	\$ 1,984	\$ 3,824	\$ 3,734
Operating grants/contributions	19,817	22,766	125	117	19,942	22,883
Capital grants/contributions	380	220	-	-	380	220
General revenues						
Decrease in equity in						
Osage, LLC	(1,438)	520	-	-	(1,438)	520
Increase in equity in						
component units	13,128	22,659	-	-	13,128	22,659
Contributed capital assets	-	374	-	-	-	374
Investment income	907	331	71	63	978	394
Tax revenue	2,144	-	-	-	2,144	-
Indirect cost recoveries	5,211	5,656	-	-	5,211	5,656
Gaming distributions	40,466	40,599	-	-	40,466	40,599
Other	1,059	958	1,987	1,926	3,046	2,884
	<u>83,935</u>	<u>95,833</u>	<u>3,746</u>	<u>4,090</u>	<u>87,681</u>	<u>99,923</u>
<b>Expenses</b>						
General government	24,718	22,233	-	-	24,718	22,233
Education	12,470	12,223	-	-	12,470	12,223
Health and human services	15,330	15,917	-	-	15,330	15,917
Community services	594	443	-	-	594	443
Culture and language	2,428	2,358	-	-	2,428	2,358
Environmental management	2,000	1,535	-	-	2,000	1,535
Housing services	1,370	1,199	-	-	1,370	1,199
Public safety	2,148	1,875	-	-	2,148	1,875
Public works	5,870	8,612	-	-	5,870	8,612
Unallocated depreciation	1,085	763	-	-	1,085	763
Osage Properties	-	-	2,087	2,143	2,087	2,143
Revenue Tax	-	-	541	622	541	622
Other	-	-	2,284	2,280	2,284	2,280
	<u>68,013</u>	<u>67,158</u>	<u>4,912</u>	<u>5,045</u>	<u>72,925</u>	<u>72,203</u>
<b>Changes Before Transfers</b>	15,922	28,675	(1,166)	(955)	14,756	27,720
<b>Distributions to Related Parties</b>	(207)	(2,600)	-	-	(207)	(2,600)
<b>Transfers</b>	<u>(1,357)</u>	<u>(484)</u>	<u>1,357</u>	<u>484</u>	<u>-</u>	<u>-</u>
<b>Change in Net Position</b>	14,358	25,591	191	(471)	14,549	25,120
<b>Net Position, Beginning of Year</b>	<u>216,609</u>	<u>191,018</u>	<u>11,628</u>	<u>12,099</u>	<u>228,237</u>	<u>203,117</u>
<b>Net Position, End of Year</b>	<u>\$ 230,967</u>	<u>\$ 216,609</u>	<u>\$ 11,819</u>	<u>\$ 11,628</u>	<u>\$ 242,786</u>	<u>\$ 228,237</u>

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

	<b>Revenues</b>	<b>Expenses</b>	<b>Transfers</b>	<b>Change in Net Position</b>
<b>Business-Type Activities</b>				
Osage Properties	\$ 863	\$ 2,087	\$ 875	\$ (349)
Revenue Tax	1,619	541	(1,000)	78
Nonmajor Proprietary Funds	1,263	2,284	1,482	461
	<u>\$ 3,745</u>	<u>\$ 4,912</u>	<u>\$ 1,357</u>	<u>\$ 190</u>

### **Governmental Funds Financial Analysis**

Governmental funds have a combined fund balance of \$62,625, up \$1,377 (2%) from 2013. There is a deficit unassigned fund balance of approximately -2% of the combined fund balance. A positive unassigned fund balance means it is available for spending at the Nation’s discretion. The primary reason for the Nation’s deficit unassigned fund balance in the current year when compared to the prior year is due to using a \$5,000 certificate of deposit as collateral for a note payable agreement with a financial institution, which changed the classification to restricted fund balance. Other categories of fund balance include restricted (\$16,941), which represents balances restricted by external agreements, assigned (\$155) and committed (\$46,836), which represents balances that can only be used for the specific purposes determined by a legislative act of the Osage Nation Congress.

The General Fund is the largest fund of the Nation. The General Fund’s fund balance increased \$1,157 to \$61,187. Of this amount, there is a deficit unassigned fund balance which represents approximately -2% of the total fund balance. The reason for the deficit in the current year compared to the prior year is described more fully in the paragraph above. The remaining fund balance of \$62,493 is classified as restricted (\$16,832) and committed (\$45,661). Of the \$45,661, \$30,000 is committed as a Permanent Fund which may not be spent without legislative action by the Osage Nation Congress. The Permanent Fund represents approximately 52% of General Fund expenditures. The increase in fund balance is primarily due to increased tobacco tax income resulting from a new compact with the state of Oklahoma (\$2,144) offset by rebates to wholesalers (\$947).

### **Proprietary Funds Financial Analysis**

Proprietary funds had a combined net position of \$11,818, an increase of \$191 from 2013.

- The Osage Properties fund had an operating loss of \$1,224 with transfers in for operating costs of \$875. The majority of the Osage Properties fund net position is invested in capital assets of \$8,940 (97%).
- The Revenue Tax fund had operating income of \$1,076 with transfers out to the General Fund of \$1,000, and an ending net position of \$195. The fund generally transfers residual income to the General Fund.

- Other proprietary funds had a combined loss before transfers of \$1,021 with transfers in of \$1,482, and an ending net position of \$2,384.

### **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 2014 actual expenditures compared to budget are shown below:

	<b>General Fund 2014</b>		
	<b>Actual</b>	<b>Budget</b>	<b>Variance</b>
<b>Revenues and Gaming Distributions</b>			
Intergovernmental	\$ 41	\$ -	\$ 41
Tax revenue	2,144	2,000	144
Program revenue	2,096	1,817	279
Indirect cost recoveries	5,211	6,293	(1,082)
Investment revenue	876	650	226
Other revenue	1,068	1,029	39
Casino distribution	40,466	40,466	-
	<u>40,466</u>	<u>40,466</u>	<u>-</u>
Total	<u>\$ 51,902</u>	<u>\$ 52,255</u>	<u>\$ (353)</u>
<b>Expenditures</b>			
Community services	\$ 546	\$ 725	\$ 179
Culture and language	2,428	3,021	593
Education	9,755	11,062	1,307
Environmental management	1,541	1,571	30
General government	24,063	27,461	3,398
Health and human services	6,561	6,945	384
Housing services	175	204	29
Public safety	1,438	1,606	168
Capital outlay	11,376	17,745	6,369
Debt service – principal	250	250	-
Debt service – interest	35	30	(5)
	<u>35</u>	<u>30</u>	<u>(5)</u>
Total	<u>\$ 58,168</u>	<u>\$ 70,620</u>	<u>\$ 12,452</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 2014 includes the balances in these funds at the end of 2013.

## **Capital Assets and Debt Administration**

**Capital Assets** – The Nation has \$37,430 invested in capital assets at the end of 2014. This represents a net increase of \$7,663 over the prior year. The most significant increases are in land purchases (\$970) and construction in progress (\$9,753). A large portion of the land purchases was related to a new initiative to purchase restricted property. The Nation began construction on two office buildings for the main Osage Nation campus, which are anticipated to be completed by June 2015.

	<b>Capital Assets, Net of Depreciation</b>					
	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2013</b>		<b>2013</b>		<b>2013</b>	
	<b>2014</b>	<b>As Restated</b>	<b>2014</b>	<b>2013</b>	<b>2014</b>	<b>As Restated</b>
Land	\$ 8,454	\$ 7,484	\$ 2,827	\$ 2,767	\$ 11,281	\$ 10,251
Buildings	8,289	8,054	6,654	7,099	14,943	15,153
Equipment	1,130	759	426	466	1,556	1,225
Vehicles	704	744	4	12	708	756
Construction in progress	12,672	2,919	-	-	12,672	2,919
	<u>\$ 31,249</u>	<u>\$ 19,960</u>	<u>\$ 9,911</u>	<u>\$ 10,344</u>	<u>\$ 41,160</u>	<u>\$ 30,304</u>

**Long-Term Liabilities** – The Nation entered into a loan agreement of \$10,000 with Bank of Oklahoma to partially fund the campus construction plan. As of the financial statement date, \$9,750 was outstanding on the loan.

### ***Economic Factors and Next Year's Budget***

The local economy remains relatively stable with some growth expected in 2015. The additional capital investments by the Nation's gaming enterprise should aid in revenue growth for 2015.

### ***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, 627 Grandview, Pawhuska, Oklahoma 74056.

**Osage Nation**  
**Statement of Net Position**  
**September 30, 2014**

	Primary Government			Component Units
	Governmental Activities	Business- Type Activities	Total	
<b>Assets</b>				
Cash and cash equivalents	\$ 27,055,634	\$ 1,763,969	\$ 28,819,603	\$ 23,230,989
Investments	48,798,205	297,856	49,096,061	-
Accounts receivable	678,964	178,568	857,532	1,452,478
Due from other governments	1,653,053	-	1,653,053	-
Prepaid expenses and other	142,798	91,999	234,797	3,249,849
Inventory	-	20,828	20,828	2,059,335
Restricted investments	5,000,000	-	5,000,000	-
Due from other funds – internal balances	209,545	(209,545)	-	-
Investment in Osage Nation businesses	3,807,478	-	3,807,478	-
Equity interests in component units	144,300,756	-	144,300,756	-
Capital assets, net	31,248,883	9,910,725	41,159,608	141,321,615
Total assets	262,895,316	12,054,400	274,949,716	171,314,266
<b>Liabilities</b>				
Accounts payable	7,068,178	154,365	7,222,543	6,488,561
Retainage payable	869,713	-	869,713	-
Accrued liabilities	458,614	-	458,614	8,500,946
Health claims liability	1,150,798	-	1,150,798	-
Other current liabilities	544,057	46,069	590,126	-
Unearned grant revenue	11,596,447	-	11,596,447	-
Compensated absences	490,826	35,687	526,513	-
Annuity payable	-	-	-	154,467
Notes payable				
Due within one year	1,000,000	-	1,000,000	-
Due in more than one year	8,750,000	-	8,750,000	-
Total liabilities	31,928,633	236,121	32,164,754	15,143,974
<b>Net Position</b>				
Net investment in capital assets	27,519,531	9,910,725	37,430,256	141,321,615
Restricted for education	1,862,753	-	1,862,753	-
Restricted for campus master plan	219,240	-	219,240	-
Restricted for collateral pledged	5,000,000	-	5,000,000	-
Restricted for program services	108,526	-	108,526	-
Restricted for ranch maintenance	-	-	-	45,000
Unrestricted	196,256,633	1,907,554	198,164,187	14,803,677
Total net position	\$ 230,966,683	\$ 11,818,279	\$ 242,784,962	\$ 156,170,292

**Osage Nation**  
**Statement of Activities**  
**Year Ended September 30, 2014**

Functions/Programs	Expenses	Program Revenues			Primary Government Net Revenue (Expense) and Changes in Net Position			Component Units
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	
<b>Governmental Activities</b>								
General government	\$ 24,718,058	\$ 906,616	\$ 493,629	\$ -	\$ (23,317,813)	\$ -	\$ (23,317,813)	\$ -
Education	12,470,442	200,364	2,305,349	-	(9,964,729)	-	(9,964,729)	-
Health and human services	15,330,154	204,380	8,414,017	-	(6,711,757)	-	(6,711,757)	-
Community services	594,429	-	48,667	-	(545,762)	-	(545,762)	-
Culture and language	2,427,875	854,511	-	-	(1,573,364)	-	(1,573,364)	-
Environmental management	1,999,625	-	438,388	-	(1,561,237)	-	(1,561,237)	-
Housing services	1,369,676	32,235	1,449,863	380,000	492,422	-	492,422	-
Public safety	2,147,726	62,527	592,250	-	(1,492,949)	-	(1,492,949)	-
Public works	5,869,621	310	6,074,980	-	205,669	-	205,669	-
Unallocated depreciation	1,085,029	-	-	-	(1,085,029)	-	(1,085,029)	-
<b>Total governmental activities</b>	<b>68,012,635</b>	<b>2,260,943</b>	<b>19,817,143</b>	<b>380,000</b>	<b>(45,554,549)</b>	<b>-</b>	<b>(45,554,549)</b>	<b>-</b>
<b>Business-Type Activities</b>								
Osage Properties	2,086,827	862,950	-	-	-	(1,223,877)	(1,223,877)	-
Revenue Tax	541,271	1,616,817	-	-	-	1,075,546	1,075,546	-
Other	2,284,455	1,069,906	124,894	-	-	(1,089,655)	(1,089,655)	-
<b>Total business-type activities</b>	<b>4,912,553</b>	<b>3,549,673</b>	<b>124,894</b>	<b>-</b>	<b>-</b>	<b>(1,237,986)</b>	<b>(1,237,986)</b>	<b>-</b>
<b>Total primary government</b>	<b>\$ 72,925,188</b>	<b>\$ 5,810,616</b>	<b>\$ 19,942,037</b>	<b>\$ 380,000</b>	<b>(45,554,549)</b>	<b>(1,237,986)</b>	<b>(46,792,535)</b>	<b>-</b>
<b>Component Units</b>	<b>\$ 144,092,240</b>	<b>\$ 209,330,687</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65,238,447</b>
<b>General Revenues</b>								
Investment income					907,257	71,176	978,433	9,559
Tobacco tax revenue					2,144,389	-	2,144,389	-
Loan fees					(34,523)	-	(34,523)	(93,927)
Other					1,093,379	-	1,093,379	-
Indirect cost recoveries					5,210,752	-	5,210,752	-
Gaming distributions					40,466,070	-	40,466,070	(40,466,070)
Decrease in equity in Osage Nation businesses					(1,438,171)	-	(1,438,171)	-
Increase in equity in component units					13,128,442	-	13,128,442	-
Distribution to ONES, LLC					(127,696)	-	(127,696)	-
Distribution to Home Health					(80,000)	-	(80,000)	80,000
<b>Transfers</b>					<b>(1,356,908)</b>	<b>1,356,908</b>	<b>-</b>	<b>-</b>
<b>Total general revenues and transfers</b>					<b>59,912,991</b>	<b>1,428,084</b>	<b>61,341,075</b>	<b>(40,470,438)</b>
<b>Change in Net Position</b>					<b>14,358,442</b>	<b>190,098</b>	<b>14,548,540</b>	<b>24,768,009</b>
<b>Net Position, Beginning of Year, as Previously Reported</b>					<b>214,381,605</b>	<b>11,628,181</b>	<b>226,009,786</b>	<b>131,402,283</b>
<b>Change in Reporting Entity (see Note 1)</b>					<b>2,226,636</b>	<b>-</b>	<b>2,226,636</b>	<b>-</b>
<b>Net Position, Beginning of Year, as Restated</b>					<b>216,608,241</b>	<b>11,628,181</b>	<b>228,236,422</b>	<b>131,402,283</b>
<b>Net Position, End of Year</b>					<b>\$ 230,966,683</b>	<b>\$ 11,818,279</b>	<b>\$ 242,784,962</b>	<b>\$ 156,170,292</b>

**Osage Nation**  
**Balance Sheet – Governmental Funds**  
**September 30, 2014**

	General Fund	Department of Housing and Urban Development	Department of Health and Human Services	Department of the Interior	Department of Transportation	Department of Agriculture	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>								
Cash and cash equivalents	\$ 22,173,140	\$ 379,072	\$ 568,387	\$ 2,367,594	\$ 1,308,615	\$ 100	\$ 36,260	\$ 26,833,168
Investments	39,784,272	-	-	-	9,013,933	-	-	48,798,205
Accounts receivable	490,667	-	-	776	-	-	984	492,427
Due from other funds	298,083	-	119,777	18,880	-	-	100,872	537,612
Due from other governments	69,061	71,845	721,295	11,977	34,938	556,570	187,367	1,653,053
Other assets	73,059	5,747	33,537	14,928	2,330	9,310	3,887	142,798
Restricted investments	5,000,000	-	-	-	-	-	-	5,000,000
Total assets	<u>\$ 67,888,282</u>	<u>\$ 456,664</u>	<u>\$ 1,442,996</u>	<u>\$ 2,414,155</u>	<u>\$ 10,359,816</u>	<u>\$ 565,980</u>	<u>\$ 329,370</u>	<u>\$ 83,457,263</u>
<b>Liabilities and Fund Balances</b>								
<b>Liabilities</b>								
Accounts payable	\$ 4,789,759	\$ 34,867	\$ 145,898	\$ 46,872	\$ 1,388,336	\$ 479,600	\$ 149,849	\$ 7,035,181
Retainage payable	569,443	-	-	-	300,270	-	-	869,713
Accrued payroll liabilities	432,729	8,900	59,120	9,893	5,407	13,244	14,764	544,057
Due to other funds	239,529	88,538	-	-	-	-	-	328,067
Unearned grant revenue	499,707	-	1,005,795	2,308,824	7,772,122	-	10,000	11,596,448
Other accrued liabilities	169,645	288,969	-	-	-	-	-	458,614
Total liabilities	<u>6,700,812</u>	<u>421,274</u>	<u>1,210,813</u>	<u>2,365,589</u>	<u>9,466,135</u>	<u>492,844</u>	<u>174,613</u>	<u>20,832,080</u>
<b>Fund Balances</b>								
Restricted	16,831,993	35,390	-	-	-	73,136	-	16,940,519
Committed	45,661,098	-	232,183	48,566	893,681	-	-	46,835,528
Assigned	-	-	-	-	-	-	154,757	154,757
Unassigned	(1,305,621)	-	-	-	-	-	-	(1,305,621)
Total fund balances	<u>61,187,470</u>	<u>35,390</u>	<u>232,183</u>	<u>48,566</u>	<u>893,681</u>	<u>73,136</u>	<u>154,757</u>	<u>62,625,183</u>
Total liabilities and fund balances	<u>\$ 67,888,282</u>	<u>\$ 456,664</u>	<u>\$ 1,442,996</u>	<u>\$ 2,414,155</u>	<u>\$ 10,359,816</u>	<u>\$ 565,980</u>	<u>\$ 329,370</u>	<u>\$ 83,457,263</u>

See Notes to Financial Statements

**Osage Nation**  
**Reconciliation of the Balance Sheet – Governmental Funds to**  
**the Statement of Net Position**  
**September 30, 2014**

<b>Total Governmental Fund Balances</b>	\$ 62,625,183
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	31,248,883
The equity interests in Osage Nation businesses are not an available resource and, therefore, are not reported in the funds	3,807,478
The equity interests in component units are not an available resource and, therefore, are not reported in the funds	144,300,756
Some liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds	(10,240,822)
Internal service funds are used by the Nation to charge the costs of certain activities, such as insurance, to individual funds; the assets and liabilities of internal service funds are included in governmental activities on the statement of net position	<u>(774,795)</u>
<b>Net Position – Governmental Activities, per the Statement of Net Position</b>	<u><u>\$ 230,966,683</u></u>

**Osage Nation**  
**Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds**  
**Year Ended September 30, 2014**

	General Fund	Department of Housing and Urban Development	Department of Health and Human Services	Department of the Interior	Department of Transportation	Department of Agriculture	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>								
Intergovernmental	\$ 40,822	\$ 1,449,863	\$ 5,364,914	\$ 2,004,895	\$ 6,074,980	\$ 3,404,322	\$ 1,477,348	\$ 19,817,144
Tobacco tax revenue	2,144,389	-	-	-	-	-	-	2,144,389
Program revenue	2,096,482	32,235	56,867	44,754	310	17,037	13,257	2,260,942
Indirect cost recoveries	5,210,752	-	-	-	-	-	-	5,210,752
Investment revenue	875,734	1,066	-	-	56,058	-	-	932,858
Other revenue	1,067,778	-	-	-	-	-	-	1,067,778
Total revenues	<u>11,435,957</u>	<u>1,483,164</u>	<u>5,421,781</u>	<u>2,049,649</u>	<u>6,131,348</u>	<u>3,421,359</u>	<u>1,490,605</u>	<u>31,433,863</u>
<b>Expenditures</b>								
General government	24,063,199	-	-	493,664	-	-	-	24,556,863
Education	9,754,465	-	2,067,538	377,688	-	-	270,752	12,470,443
Health and human services	6,561,114	-	3,879,234	540,208	-	3,490,775	858,824	15,330,155
Community services	545,762	-	48,667	-	-	-	-	594,429
Culture and language	2,427,875	-	-	-	-	-	-	2,427,875
Environmental management	1,540,624	-	-	708	-	-	458,293	1,999,625
Housing services	175,372	1,194,304	-	-	-	-	-	1,369,676
Public safety	1,438,331	-	-	622,679	-	-	-	2,061,010
Public works	-	-	-	-	5,869,621	-	-	5,869,621
Capital outlay	11,375,956	322,049	47,900	14,091	215,938	18,078	-	11,994,012
Debt service								
Principal	250,000	-	-	-	-	-	-	250,000
Interest	34,523	-	-	-	-	-	-	34,523
Total expenditures	<u>58,167,221</u>	<u>1,516,353</u>	<u>6,043,339</u>	<u>2,049,038</u>	<u>6,085,559</u>	<u>3,508,853</u>	<u>1,587,869</u>	<u>78,958,232</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>(46,731,264)</u>	<u>(33,189)</u>	<u>(621,558)</u>	<u>611</u>	<u>45,789</u>	<u>(87,494)</u>	<u>(97,264)</u>	<u>(47,524,369)</u>
<b>Other Financing Sources (Uses)</b>								
Transfers in	1,000,000	-	614,406	19,937	-	160,574	217,894	2,012,811
Transfers out	(3,369,719)	-	-	-	-	-	-	(3,369,719)
Distributions to related parties	(207,696)	-	-	-	-	-	-	(207,696)
Issuance of debt	10,000,000	-	-	-	-	-	-	10,000,000
Gaming distributions	40,466,070	-	-	-	-	-	-	40,466,070
Total other financing sources (uses)	<u>47,888,655</u>	<u>-</u>	<u>614,406</u>	<u>19,937</u>	<u>-</u>	<u>160,574</u>	<u>217,894</u>	<u>48,901,466</u>
<b>Net Change in Fund Balances</b>	<u>1,157,391</u>	<u>(33,189)</u>	<u>(7,152)</u>	<u>20,548</u>	<u>45,789</u>	<u>73,080</u>	<u>120,630</u>	<u>1,377,097</u>
<b>Fund Balances, Beginning of Year</b>	<u>60,030,079</u>	<u>68,579</u>	<u>239,335</u>	<u>28,018</u>	<u>847,892</u>	<u>56</u>	<u>34,127</u>	<u>61,248,086</u>
<b>Fund Balances, End of Year</b>	<u>\$ 61,187,470</u>	<u>\$ 35,390</u>	<u>\$ 232,183</u>	<u>\$ 48,566</u>	<u>\$ 893,681</u>	<u>\$ 73,136</u>	<u>\$ 154,757</u>	<u>\$ 62,625,183</u>

See Notes to Financial Statements

**Osage Nation**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes**  
**in Fund Balances – Governmental Funds to the Statement of Activities**  
**Year Ended September 30, 2014**

<b>Net Change in Fund Balances – Governmental Funds</b>		<b>\$ 1,377,097</b>
<p>Amounts reported for governmental activities in the statement of activities are different due to</p>		
<p>Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. In the current period, capital asset reconciling items included</p>		
Capital outlay	11,994,012	
Capital assets donated to Osage Nation	380,000	
Depreciation expense	(1,085,029)	11,288,983
<p>The decrease in equity in Osage Nation businesses in the statement of activities does not provide current financial resources and is not reported as expense in the funds</p>		
		(1,438,171)
<p>The increase in equity in component units in the statement of activities does not provide current financial resources and is not reported as revenue in the funds</p>		
		13,128,442
<p>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</p>		
		(239,756)
<p>Compensated absences are expensed as used in the governmental funds. However, they are expensed as incurred on the statement of activities. In the current year, the amount incurred exceeded the amount used</p>		
		(8,153)
<p>Issuance of debt is recorded in other financing sources (uses) in the governmental funds. However, it is included in long-term debt on the government-wide statements</p>		
		(10,000,000)
<p>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</p>		
		250,000
<b>Change in Net Position of Governmental Activities</b>		<b>\$ 14,358,442</b>

**Osage Nation**  
**Statement of Net Position – Proprietary Funds**  
**September 30, 2014**

	<b>Business-Type Activities</b>			<b>Total</b>	<b>Governmental Activities</b>
	<b>Osage Properties</b>	<b>Revenue Tax</b>	<b>Nonmajor Proprietary Funds</b>		<b>Internal Service Fund</b>
<b>Assets</b>					
<b>Current Assets</b>					
Cash and cash equivalents	\$ 396,082	\$ 137,345	\$ 1,230,543	\$ 1,763,970	\$ 222,466
Investments	-	-	297,856	297,856	-
Accounts receivable	-	76,967	101,601	178,568	186,537
Prepaid expenses	73,600	1,730	16,670	92,000	-
Inventory	-	20,828	-	20,828	-
Total current assets	<u>469,682</u>	<u>236,870</u>	<u>1,646,670</u>	<u>2,353,222</u>	<u>409,003</u>
<b>Noncurrent Assets</b>					
Capital assets					
Nondepreciable capital assets	2,112,020	-	715,000	2,827,020	-
Depreciable capital assets	13,172,071	45,659	1,897,108	15,114,838	-
Accumulated depreciation	<u>(6,344,226)</u>	<u>(39,270)</u>	<u>(1,647,637)</u>	<u>(8,031,133)</u>	<u>-</u>
Capital assets, net	<u>8,939,865</u>	<u>6,389</u>	<u>964,471</u>	<u>9,910,725</u>	<u>-</u>
Total assets	<u>9,409,547</u>	<u>243,259</u>	<u>2,611,141</u>	<u>12,263,947</u>	<u>409,003</u>
<b>Liabilities</b>					
<b>Current Liabilities</b>					
Accounts payable	50,311	5,372	98,684	154,367	33,000
Other accrued liabilities	8,985	15,195	21,888	46,068	1,150,798
Compensated absences	9,685	2,326	23,677	35,688	-
Due to other funds	<u>101,249</u>	<u>24,975</u>	<u>83,321</u>	<u>209,545</u>	<u>-</u>
Total current liabilities	<u>170,230</u>	<u>47,868</u>	<u>227,570</u>	<u>445,668</u>	<u>1,183,798</u>
<b>Net Position</b>					
Net investment in capital assets	8,939,865	6,389	964,471	9,910,725	-
Unrestricted	<u>299,452</u>	<u>189,002</u>	<u>1,419,100</u>	<u>1,907,554</u>	<u>(774,795)</u>
Total net position	<u>\$ 9,239,317</u>	<u>\$ 195,391</u>	<u>\$ 2,383,571</u>	<u>\$ 11,818,279</u>	<u>\$ (774,795)</u>

**Osage Nation**  
**Statement of Revenues, Expenses and Changes in**  
**Net Position – Proprietary Funds**  
**Year Ended September 30, 2014**

	<b>Business-Type Activities</b>			<b>Total</b>	<b>Governmental</b>
	<b>Osage Properties</b>	<b>Revenue Tax</b>	<b>Nonmajor Proprietary Funds</b>		<b>Internal Service Fund</b>
<b>Operating Revenues</b>					
Utility income	\$ -	\$ -	\$ 723,933	\$ 723,933	\$ -
Rental income	862,950	-	47,955	910,905	-
Tax revenue	-	1,563,361	-	1,563,361	-
Intergovernmental	-	-	124,894	124,894	-
Claims cost recovery	-	-	-	-	4,087,795
Other revenue	-	53,456	298,018	351,474	-
Total operating revenues	<u>862,950</u>	<u>1,616,817</u>	<u>1,194,800</u>	<u>3,674,567</u>	<u>4,087,795</u>
<b>Operating Expenses</b>					
Cost of merchandise sales	-	4,181	611,935	616,116	-
Salaries and fringe benefits	580,751	335,095	1,116,715	2,032,561	-
Contractual services	5,260	-	13,954	19,214	-
Travel and training	33,999	15,533	5,409	54,941	-
Expendable equipment	6,132	6,649	-	12,781	-
Repairs and maintenance/ occupancy	645,551	40,399	90,259	776,209	-
Tribal member assistance	-	-	75,034	75,034	-
Claims incurred	-	-	-	-	4,327,551
Indirect cost	294,634	97,242	293,115	684,991	-
Other supplies and expenses	33,903	35,506	45,822	115,231	-
Depreciation	486,597	6,667	32,213	525,477	-
Total operating expenses	<u>2,086,827</u>	<u>541,272</u>	<u>2,284,456</u>	<u>4,912,555</u>	<u>4,327,551</u>
<b>Operating Income (Loss)</b>	<u>(1,223,877)</u>	<u>1,075,545</u>	<u>(1,089,656)</u>	<u>(1,237,988)</u>	<u>(239,756)</u>
<b>Nonoperating Revenue</b>					
Interest revenue	-	2,446	68,732	71,178	-
Total nonoperating revenue	<u>-</u>	<u>2,446</u>	<u>68,732</u>	<u>71,178</u>	<u>-</u>
<b>Income (Loss) Before Transfers</b>	<u>(1,223,877)</u>	<u>1,077,991</u>	<u>(1,020,924)</u>	<u>(1,166,810)</u>	<u>(239,756)</u>
<b>Transfers In (Out)</b>	<u>875,007</u>	<u>(1,000,000)</u>	<u>1,481,901</u>	<u>1,356,908</u>	<u>-</u>
<b>Change in Net Position</b>	<u>(348,870)</u>	<u>77,991</u>	<u>460,977</u>	<u>190,098</u>	<u>(239,756)</u>
<b>Net Position, Beginning of Year</b>	<u>9,588,187</u>	<u>117,400</u>	<u>1,922,594</u>	<u>11,628,181</u>	<u>(535,039)</u>
<b>Net Position, End of Year</b>	<u>\$ 9,239,317</u>	<u>\$ 195,391</u>	<u>\$ 2,383,571</u>	<u>\$ 11,818,279</u>	<u>\$ (774,795)</u>

**Osage Nation**  
**Statement of Cash Flows – Proprietary Funds**  
**Year Ended September 30, 2014**

	<b>Business-Type Activities</b>			<b>Total</b>	<b>Governmental</b>
	<b>Osage Properties</b>	<b>Revenue Tax</b>	<b>Nonmajor Proprietary Funds</b>		<b>Internal Service Fund</b>
<b>Operating Activities</b>					
Cash received from customers	\$ 862,950	\$ 1,616,886	\$ 1,234,615	\$ 3,714,451	\$ 4,062,291
Cash paid to employees	(580,319)	(336,146)	(1,108,160)	(2,024,625)	-
Cash paid to suppliers	(1,022,826)	(233,102)	(1,264,726)	(2,520,654)	-
Cash received from (paid to) other funds	86,914	(1,398,593)	52,326	(1,259,353)	-
Cash paid for claims	-	-	-	-	(3,889,110)
Net cash provided by (used in) operating activities	<u>(653,281)</u>	<u>(350,955)</u>	<u>(1,085,945)</u>	<u>(2,090,181)</u>	<u>173,181</u>
<b>Investing Activities</b>					
Purchase of investments	-	-	(370,363)	(370,363)	-
Proceeds from sales and maturities of investments	-	-	368,993	368,993	-
Interest received	-	2,446	68,732	71,178	-
Net cash provided by investing activities	<u>-</u>	<u>2,446</u>	<u>67,362</u>	<u>69,808</u>	<u>-</u>
<b>Noncapital Financing Activities</b>					
Transfers in (out)	<u>875,007</u>	<u>(1,000,000)</u>	<u>1,481,901</u>	<u>1,356,908</u>	<u>-</u>
Net cash provided by (used in) noncapital financing activities	<u>875,007</u>	<u>(1,000,000)</u>	<u>1,481,901</u>	<u>1,356,908</u>	<u>-</u>
<b>Capital and Related Financing Activities</b>					
Purchase of property and equipment	<u>(60,654)</u>	<u>-</u>	<u>(31,573)</u>	<u>(92,227)</u>	<u>-</u>
Net cash used in capital and related financing activities	<u>(60,654)</u>	<u>-</u>	<u>(31,573)</u>	<u>(92,227)</u>	<u>-</u>
<b>Net Change in Cash and Cash Equivalents</b>	<b>161,072</b>	<b>(1,348,509)</b>	<b>431,745</b>	<b>(755,692)</b>	<b>173,181</b>
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>235,010</u>	<u>1,485,854</u>	<u>798,798</u>	<u>2,519,662</u>	<u>49,285</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 396,082</u>	<u>\$ 137,345</u>	<u>\$ 1,230,543</u>	<u>\$ 1,763,970</u>	<u>\$ 222,466</u>

**Osage Nation**  
**Statement of Cash Flows – Proprietary Funds, continued**  
**Year Ended September 30, 2014**

	Business-Type Activities			Total	Governmental Activities
	Osage Properties	Revenue Tax	Nonmajor Proprietary Funds		Internal Service Fund
<b>Reconciliation of Operating Income</b>					
<b>(Loss) to Net Cash Provided by</b>					
<b>(Used in) Operating Activities</b>					
Operating income (loss)	\$ (1,223,877)	\$ 1,075,545	\$ (1,089,656)	\$ (1,237,988)	\$ (239,756)
Adjustment to reconcile operating income (loss) to net cash provided by (used in) operating activities					
Depreciation	486,597	6,666	32,213	525,476	-
Changes in working capital components					
(Increase) decrease in accounts receivable	-	69	39,815	39,884	(25,504)
(Increase) decrease in inventory/prepays	8,881	(9,394)	(15,361)	(15,874)	-
Increase (decrease) in accounts payable	(12,228)	(24,197)	(113,837)	(150,262)	438,441
Increase (decrease) in due to other funds	86,914	(1,398,593)	52,326	(1,259,353)	-
Increase (decrease) in other liabilities	432	(1,051)	8,555	7,936	-
	432	(1,051)	8,555	7,936	-
Net cash provided by (used in) operating activities	\$ (653,281)	\$ (350,955)	\$ (1,085,945)	\$ (2,090,181)	\$ 173,181

**Osage Nation**  
**Combining Statement of Net Position – Discretely Presented Component Units**  
**September 30, 2014**

	<b>Osage Casinos</b>	<b>Osage Home Health</b>	<b>Osage Nation Foundation</b>	<b>Total</b>
<b>Assets</b>				
Cash and cash equivalents	\$ 22,854,248	\$ 53,069	\$ 323,672	\$ 23,230,989
Accounts receivable	1,284,979	167,499	-	1,452,478
Prepaid expenses and other	3,249,202	647	-	3,249,849
Inventory	2,034,514	5,000	19,821	2,059,335
Capital assets, net	<u>129,618,705</u>	<u>2,910</u>	<u>11,700,000</u>	<u>141,321,615</u>
Total assets	<u>159,041,648</u>	<u>229,125</u>	<u>12,043,493</u>	<u>171,314,266</u>
<b>Liabilities</b>				
Accounts payable	6,457,035	12,036	19,490	6,488,561
Accrued liabilities	8,495,132	5,814	-	8,500,946
Annuity payable	<u>-</u>	<u>-</u>	<u>154,467</u>	<u>154,467</u>
Total liabilities	<u>14,952,167</u>	<u>17,850</u>	<u>173,957</u>	<u>15,143,974</u>
<b>Net Position</b>				
Net investment in capital assets	129,618,705	2,910	11,700,000	141,321,615
Restricted for ranch maintenance	-	-	45,000	45,000
Unrestricted	<u>14,470,776</u>	<u>208,365</u>	<u>124,536</u>	<u>14,803,677</u>
Total net position	<u>\$ 144,089,481</u>	<u>\$ 211,275</u>	<u>\$ 11,869,536</u>	<u>\$ 156,170,292</u>

**Osage Nation**  
**Combining Statement of Revenues, Expenses and Changes in**  
**Net Position – Discretely Presented Component Units**  
**Year Ended September 30, 2014**

	<b>Osage Casinos</b>	<b>Osage Home Health</b>	<b>Osage Nation Foundation</b>	<b>Total</b>
<b>Operating Revenues</b>				
Gaming revenue	\$ 174,564,223	\$ -	\$ -	\$ 174,564,223
Merchandise sales	9,574,521	-	-	9,574,521
Food and beverage	8,673,447	-	-	8,673,447
Charges for goods and services	-	522,908	-	522,908
Grants and donations	-	-	371,121	371,121
Program income	-	-	32,051	32,051
Other revenue	5,389,354	4,262	57,800	5,451,416
Less promotional allowances	(1,559,000)	-	-	(1,559,000)
Total operating revenues	<u>196,642,545</u>	<u>527,170</u>	<u>460,972</u>	<u>197,630,687</u>
<b>Operating Expenses</b>				
Salaries and fringe benefits	50,702,569	284,966	23,000	51,010,535
Contractual services	-	148,503	96,054	244,557
Program expense	-	-	195,055	195,055
Travel and training	-	34,219	8,253	42,472
Repairs and maintenance	-	12,960	-	12,960
Marketing and advertising	9,943,351	1,171	6,930	9,951,452
Depreciation and amortization	16,983,078	-	-	16,983,078
Annuity expense	-	-	169,467	169,467
Project cost write-off	5,877,116	-	-	5,877,116
Gaming and related	21,462,062	-	-	21,462,062
General and administrative	13,978,718	88,579	14,987	14,082,284
Food and beverage	5,605,956	-	-	5,605,956
Compact fees	8,014,167	-	-	8,014,167
Retail	8,996,911	-	-	8,996,911
Hotel	775,600	-	-	775,600
Entertainment	660,909	-	-	660,909
Other expenses	-	-	7,659	7,659
Total operating expenses	<u>143,000,437</u>	<u>570,398</u>	<u>521,405</u>	<u>144,092,240</u>
<b>Operating Income (Loss)</b>	<u>53,642,108</u>	<u>(43,228)</u>	<u>(60,433)</u>	<u>53,538,447</u>
<b>Nonoperating Revenues (Expenses)</b>				
Donation of land – permanently restricted	-	-	11,700,000	11,700,000
Interest revenue	9,454	105	-	9,559
Contributions from Osage Nation	-	80,000	-	80,000
Loan fees	(93,927)	-	-	(93,927)
Distributions to Osage Nation	(40,466,070)	-	-	(40,466,070)
Total nonoperating revenues (expenses)	<u>(40,550,543)</u>	<u>80,105</u>	<u>11,700,000</u>	<u>(28,770,438)</u>
<b>Change in Net Position</b>	13,091,565	36,877	11,639,567	24,768,009
<b>Net Position, Beginning of Year</b>	<u>130,997,916</u>	<u>174,398</u>	<u>229,969</u>	<u>131,402,283</u>
<b>Net Position, End of Year</b>	<u>\$ 144,089,481</u>	<u>\$ 211,275</u>	<u>\$ 11,869,536</u>	<u>\$ 156,170,292</u>

See Notes to Financial Statements

# Osage Nation

## Notes to Financial Statements

### September 30, 2014

#### Note 1: Summary of Significant Accounting Policies

##### **Organization**

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

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

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

# Osage Nation

## Notes to Financial Statements

### September 30, 2014

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.

#### ***Change in Reporting Entity***

During the year ended September 30, 2014, the Nation determined a change in the reporting entity was necessary to include the assets and activities of three Indian villages in Pawhuska, Hominy and Gray Horse under Governmental Accounting Standards Board (GASB) Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. These village assets and activities were previously not reported in the governmental activities of the Nation. Based upon further evaluation by the Osage Nation Attorney General, it has been determined that the villages are within the jurisdiction and control of the Nation. The change has been reflected as an adjustment of \$2,226,636 to the beginning of year net position in the accompanying government-wide statement of activities to include the net assets of the villages, which consist of capital assets, net of accumulated depreciation.

#### ***Reporting Entity***

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

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

In evaluating how to define the Nation, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by 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.

# Osage Nation

## Notes to Financial Statements

### September 30, 2014

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

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

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

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

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

#### ***Basis of Presentation***

##### **Financial Statements**

The basic financial statements of the Nation include the government-wide fund 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 and distributions from the Osage Casinos (the Casinos). During the year ended September 30, 2014, distributions from the Casinos amounted to \$40,466,070.

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.

# Osage Nation

## Notes to Financial Statements

### September 30, 2014

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

#### Proprietary Fund Types

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

# Osage Nation

## Notes to Financial Statements

### September 30, 2014

The Nation reports the following major enterprise funds:

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

The Nation reports the following component units:

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

#### ***Basis of Accounting and Measurement Focus***

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

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

# Osage Nation

## Notes to Financial Statements

### September 30, 2014

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.

#### **Adoption of Accounting Principles**

Effective October 1, 2013, the Nation implemented the following financial accounting and reporting standards issued by GASB:

GASB Statement No. 66, *Technical Corrections – 2012 – an amendment of GASB Statements No. 10 and No. 62*. This statement amends GASB Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state or local government's risk financing activities to the general fund and the internal service fund types. As a result, governments would base their decisions about governmental fund type usage for risk financing activities on the definitions in GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

GASB Statement No. 66 also amends GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for:

- Operating lease payments that vary from a straight-line basis
- The difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans
- Servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current (normal) servicing fee rate

These changes would eliminate any uncertainty regarding the application of GASB Statement No. 13, *Accounting for Operating Leases with Scheduled Rent Increases*, and result in guidance that is consistent with the requirements in GASB Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues*. The adoption of GASB Statement No. 66 did not have a material effect on the financial statements in the current year and had no effect on previously issued financial statements.

**Osage Nation**  
**Notes to Financial Statements**  
**September 30, 2014**

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee. GASB Statement No. 70 also specifies the information required to be disclosed by governments extending nonexchange financial guarantees as well as governments that receive nonexchange financial guarantees. The adoption of GASB Statement No. 70 did not have a material effect on the financial statements in the current year and had no effect on previously issued financial statements.

***Accounting Policies***

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

**Cash and Cash Equivalents**

The Nation considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2014, cash equivalents consisted primarily of short-term certificates of deposit.

**Accounts Receivable**

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

**Due from Other Governments**

Due from other governments represents amounts that have been expended by the programs but have not been reimbursed by the respective funding agency. Total amounts due from other governments as of September 30, 2014, amounted to \$1,653,053.

**Investments**

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

**Investment in Osage Nation Businesses**

The Nation records its equity in its investments in Osage Nation businesses using the equity method of accounting. The Nation records its initial investment at cost and subsequently adjusts its original investment for its share of the income or loss of each business and cash distributions, if any, received from the business. Investments are evaluated periodically to determine if the carrying value of the investment exceeds fair value. When management believes an impairment has been incurred, the investment is adjusted to fair value. Management did not record an impairment in 2014.

**Osage Nation**  
**Notes to Financial Statements**  
**September 30, 2014**

**Equity Interests in Component Units**

The Nation records its equity in its interest in component units owned by the Nation using the equity method of accounting. The Nation recorded its initial investment at the equity of the investment at September 30, 2012, the date on which it adopted GASB Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. Subsequently, the Nation adjusts its initially recorded investment for its share of the income or loss of the component units and capital contributions or cash distributions, if any, paid to or received from the component units. This investment in component units is evaluated periodically to determine if the carrying value of the equity interest exceeds fair value. When management believes an impairment has been incurred, the equity interest in component units is adjusted to fair value. Management did not record an impairment in 2014.

**Inventory**

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

**Capital Assets and Depreciation**

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

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

**Governmental Activities and Business-Type Activities**

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

**Osage Nation**  
**Notes to Financial Statements**  
**September 30, 2014**

**Discretely Presented Component Units**

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

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, 2014.

***Internal Balances***

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

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

***Estimates***

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

**Osage Nation**  
**Notes to Financial Statements**  
**September 30, 2014**

**Compensated Absences**

Employees accrue 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 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, 2014, totaled \$490,826 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 vested annual sick leave at the rate of 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

**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 23.09% 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, for fiscal year 2014.

**Net Position**

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

- **Net Investment in Capital Assets** – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt or other borrowings attributed to the acquisition, construction or improvement of the assets.

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- **Restricted** – This amount is restricted by external creditors, grantors, contributors, law or regulations of other governments, enabling legislation or constitutional provisions.
- **Unrestricted** – This amount is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

***Unearned Grant Revenue***

Unearned grant revenue represents amounts that have been received by the programs from the respective funding agencies that have not yet been expended for the intended purposes. The unearned grant revenue in the Department of Human Services Fund is primarily attributable to the advance funding of the Alcohol and Substance Abuse and Methamphetamine and Suicide Prevention Initiative grant programs. The cash balance reflected in the Department of Human Services Fund is less than the unearned grant balance because other grant programs included in this fund have deficit cash balances which reduce the balances in the advance funded programs, which equal or exceed the unearned grant balances.

***Revenue Recognition***

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

***Operating and Nonoperating Revenues and Expenses***

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

***Fund Equity***

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

- **Nonspendable** – Includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints, including inventories, prepaid assets and the corpus of permanent funds.
- **Restricted** – Fund balances that are restricted for specific purposes stipulated by external parties, constitutional provisions or enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

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- **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) the Treasurer or (b) an appointed body or official to whom the Nation has delegated the authority to assign, modify or rescind amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental, special revenue, capital project, debt service or permanent funds (except negative amounts) that are not classified as nonspendable, restricted or committed. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service or permanent fund, are assigned for purposes in accordance with the nature of their fund type. Assignment within the General Fund conveys that the intended use of those amounts is for a specific purpose that is narrower than the general purposes of the Nation itself.
- **Unassigned** – Fund balances of the General Fund that are not constrained for any particular purposes. It is also the residual classification for all negative fund balances.

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

## **Note 2: Deposits and Investments**

### ***Deposits***

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

### ***Investments***

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

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

*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, 2014, the maturities of the Nation’s investments subject to interest rate risk were as follows:

Investment Type	Fair Value	Weighted-Average Maturity (Years)
Repurchase agreements	\$ 937,886	0.01
Money market	1,890,644	0.11
Convertible bonds	784,870	8.05
Corporate bonds	11,268,514	3.95
Government-sponsored entities	18,513,949	2.20
U.S. Treasuries	<u>1,728,693</u>	3.79
Total fair value	<u>\$ 35,124,556</u>	
Portfolio weighted-average maturity		2.79

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

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

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

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The credit ratings of the Nation's investments as of September 30, 2014, were as follows:

	<u>Total</u>	<u>AA</u>	<u>A</u>	<u>BBB</u>	<u>BB</u>	<u>B</u>	<u>CCC</u>	<u>Unrated</u>
Investment type								
Primary government								
Repurchase agreements	\$ 937,886	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 937,886
Money market funds	1,890,644	-	-	-	-	-	-	1,890,644
Convertible bonds	784,870	-	-	-	-	231,111	20,600	533,159
Corporate bonds	11,268,514	2,426,675	2,963,206	5,102,833	775,800	-	-	-
Government-sponsored entities	18,513,949	18,513,949	-	-	-	-	-	-
U.S. treasuries	1,728,693	1,728,693	-	-	-	-	-	-
	<u>35,124,556</u>	<u>\$ 22,669,317</u>	<u>\$ 2,963,206</u>	<u>\$ 5,102,833</u>	<u>\$ 775,800</u>	<u>\$ 231,111</u>	<u>\$ 20,600</u>	<u>\$ 3,361,689</u>
Equities	4,870,325							
Land	500,026							
Total investments	<u>\$ 40,494,907</u>							

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

The policy includes the following security type concentration limitations:

<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%

**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, 2014, the balance of the securities held by the third-party custodian was approximately \$40,000,000.

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***Summary of Carrying Values***

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

	<b><u>Primary Government</u></b>
Included in the following categories for deposit and investment disclosure purposes	
Deposits and cash on hand	\$ 42,420,757
Investments	<u>40,494,907</u>
	<u><u>\$ 82,915,664</u></u>
Included in the following statement of net position captions	
Cash and cash equivalents	\$ 28,819,603
Investments	49,096,061
Restricted investment	<u>5,000,000</u>
	<u><u>\$ 82,915,664</u></u>

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

Deposits and cash on hand – disclosure purposes	\$ 42,420,757
Repurchase agreements	937,886
Less certificates of deposit – maturity greater than 90 days	<u>(14,539,040)</u>
Cash and cash equivalents – statement of net position	<u><u>\$ 28,819,603</u></u>

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**Note 3: Interfund Activity**

Interfund balances are summarized as follows:

	<b>Payable Fund</b>					<b>Total</b>
	<b>General Fund</b>	<b>Department of Housing and Urban Development</b>	<b>Osage Properties</b>	<b>Revenue Tax</b>	<b>Nonmajor Proprietary Funds</b>	
<b>Receivable Fund</b>						
General Fund	\$ -	\$ 88,538	\$ 101,249	\$ 24,975	\$ 83,321	\$ 298,083
Department of Health and Human Services	119,777	-	-	-	-	119,777
Department of the Interior	18,880	-	-	-	-	18,880
Other Governmental	100,872	-	-	-	-	100,872
	<u>\$ 239,529</u>	<u>\$ 88,538</u>	<u>\$ 101,249</u>	<u>\$ 24,975</u>	<u>\$ 83,321</u>	<u>\$ 537,612</u>

All amounts will be repaid within the year.

Transfers are summarized as follows:

	<b>Transfers In</b>							
	<b>General Fund</b>	<b>Department of Health and Human Services</b>	<b>Department of the Interior</b>	<b>Department of Agriculture</b>	<b>Other Governmental Funds</b>	<b>Osage Properties</b>	<b>Nonmajor Proprietary Funds</b>	<b>Total</b>
<b>Transfers Out</b>								
General Fund	\$ -	\$ 614,406	\$ 19,937	\$ 160,574	\$ 217,894	\$ 875,007	\$ 1,481,901	\$ 3,369,719
Revenue Tax	1,000,000	-	-	-	-	-	-	1,000,000
	<u>\$ 1,000,000</u>	<u>\$ 614,406</u>	<u>\$ 19,937</u>	<u>\$ 160,574</u>	<u>\$ 217,894</u>	<u>\$ 875,007</u>	<u>\$ 1,481,901</u>	<u>\$ 4,369,719</u>

The principal purposes of the transfers are to fund programs and to manage cash flow. The General Fund transfers funds as determined by Osage Nation Congress' legislative act to meet cash match requirements or to supplement funding for programs. The Osage Revenue Tax Commission transfers residual income to the General Fund annually. The Osage Revenue Tax Commission residual for fiscal year 2014 that was transferred to the General Fund was \$1,000,000.

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

Under GASB Statement No. 61, the Nation is required to present its equity interest in various Osage Nation activities as assets of the primary government even if they are presented as discretely presented component units. In evaluating its equity position in these activities, the Nation concluded that the primary purpose of its ownership of some of these entities is to obtain income or profit and, therefore, they determined that the Nation should present its equity interest in these businesses as investments of the Nation rather than discretely presented component units. The entities that the Nation concluded should be treated as investments rather than component units were Osage, LLC and Osage Nation Energy Services, LLC (ONES, LLC). The Nation owns 100% of these businesses and accounts for these investments using the equity method. Osage, LLC is a holding company that owns other businesses established or purchased by Osage, LLC. ONES, LLC is a business created by the Nation in 2013 as an oilfield service business providing products and services to the local and regional pipeline and oilfield industry. These entities were created for the purpose of earning a profit. The carrying value of these investments in Osage Nation businesses was \$3,807,478 at September 30, 2014. Audited financial statements of Osage, LLC are available upon request.

The Nation determined that the other component units in which the Nation also has an equity interest should continue to be reported as discretely presented component units, but under GASB Statement No. 61, the Nation's equity ownership position in these component units (Osage Casinos and Osage Home Health) should also be reported as assets of the primary government. These assets are assets of the governmental activities within the primary government because governmental funds hold the equity interests. As of September 30, 2014, the Nation also has reflected its equity investment in Osage Casinos and Osage Home Health as governmental activities assets. The carrying value of the equity interests in component units as an asset of the governmental activities was \$144,300,756 at September 30, 2014. During the year ended September 30, 2014, the Nation recognized an increase in equity in these owned component units of \$13,128,442.

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

Condensed financial information for Osage, LLC and ONES, LLC is presented on the following page. ONES, LLC is presented for the year ended September 30, 2014, and Osage, LLC is presented for the year ended December 31, 2014.

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	<b>Osage, LLC</b>	<b>ONES, LLC</b>	<b>Total</b>
<b>Assets</b>			
Current and other assets	\$ 3,656,512	\$ 70,097	\$ 3,726,609
Investment in joint venture	143,718	-	143,718
Capital assets, net	<u>50,171</u>	<u>125,944</u>	<u>176,115</u>
Total assets	<u>3,850,401</u>	<u>196,041</u>	<u>4,046,442</u>
<b>Liabilities</b>			
Accounts payable and accrued liabilities	167,334	6,950	174,284
Other liabilities	52,601	-	52,601
Unearned revenue	<u>-</u>	<u>12,079</u>	<u>12,079</u>
Total liabilities	<u>219,935</u>	<u>19,029</u>	<u>238,964</u>
<b>Net Position</b>			
Net investment in capital assets	50,171	125,944	176,115
Restricted	1,500,000	-	1,500,000
Unrestricted	<u>2,080,295</u>	<u>51,068</u>	<u>2,131,363</u>
Total net position	<u>\$ 3,630,466</u>	<u>\$ 177,012</u>	<u>\$ 3,807,478</u>
<b>Operating Revenues</b>			
	\$ 1,492,358	\$ 184,243	\$ 1,676,601
<b>Operating Expenses</b>			
	<u>3,055,033</u>	<u>165,589</u>	<u>3,220,622</u>
<b>Operating Income</b>			
	(1,562,675)	18,654	(1,544,021)
<b>Nonoperating Expenses</b>			
	<u>(21,846)</u>	<u>-</u>	<u>(21,846)</u>
<b>Income (Loss) Before Contributions from the Nation</b>			
	(1,584,521)	18,654	(1,565,867)
<b>Contributions from the Nation</b>			
	<u>-</u>	<u>127,696</u>	<u>127,696</u>
<b>Change in Net Position</b>			
	(1,584,521)	146,350	(1,438,171)
<b>Net Position, Beginning of Year</b>			
	<u>5,214,987</u>	<u>30,662</u>	<u>5,245,649</u>
<b>Net Position, End of Year</b>			
	<u>\$ 3,630,466</u>	<u>\$ 177,012</u>	<u>\$ 3,807,478</u>

The decrease in equity in Osage Nation businesses of \$1,438,171 is presented in the accompanying government-wide statement of activities.

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**Note 5: Capital Assets**

Capital asset activity for the year ended September 30, 2014, is summarized as follows:

**Governmental Activities**

	<b>Beginning Balance (as Restated)</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Capital assets not being depreciated					
Land	\$ 7,484,606	\$ 969,078	\$ -	\$ -	\$ 8,453,684
Construction in progress	2,918,536	9,753,449	-	-	12,671,985
Total capital assets not being depreciated	<u>10,403,142</u>	<u>10,722,527</u>	<u>-</u>	<u>-</u>	<u>21,125,669</u>
Capital assets being depreciated					
Buildings	11,985,621	824,093	(25,000)	-	12,784,714
Equipment	1,334,366	645,169	-	-	1,979,535
Vehicles	2,809,937	182,224	(310,178)	-	2,681,983
Total capital assets being depreciated	<u>16,129,924</u>	<u>1,651,486</u>	<u>(335,178)</u>	<u>-</u>	<u>17,446,232</u>
Less accumulated depreciation					
Buildings	(3,932,079)	(588,266)	25,000	-	(4,495,345)
Equipment	(575,004)	(274,719)	-	-	(849,723)
Vehicles	(2,066,084)	(222,044)	310,178	-	(1,977,950)
Total accumulated depreciation	<u>(6,573,167)</u>	<u>(1,085,029)</u>	<u>335,178</u>	<u>-</u>	<u>(7,323,018)</u>
Capital assets, net	<u>\$ 19,959,899</u>	<u>\$ 11,288,984</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,248,883</u>

Depreciation expense of \$1,085,029 is unallocated on the accompanying government-wide statement of activities.

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**Business-Type Activities**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Capital assets not being depreciated					
Land	\$ 2,766,364	\$ 60,656	\$ -	\$ -	\$ 2,827,020
Total capital assets not being depreciated	<u>2,766,364</u>	<u>60,656</u>	<u>-</u>	<u>-</u>	<u>2,827,020</u>
Capital assets being depreciated					
Buildings	14,366,244	-	(138,000)	-	14,228,244
Equipment	664,749	31,573	-	-	696,322
Vehicles	190,273	-	-	-	190,273
Total capital assets being depreciated	<u>15,221,266</u>	<u>31,573</u>	<u>(138,000)</u>	<u>-</u>	<u>15,114,839</u>
Less accumulated depreciation					
Buildings	(7,266,798)	(446,388)	138,000	-	(7,575,186)
Equipment	(199,004)	(70,953)	-	-	(269,957)
Vehicles	(177,854)	(8,137)	-	-	(185,991)
Total accumulated depreciation	<u>(7,643,656)</u>	<u>(525,478)</u>	<u>138,000</u>	<u>-</u>	<u>(8,031,134)</u>
Capital assets, net	<u>\$ 10,343,974</u>	<u>\$ (433,249)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,910,725</u>

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**Discretely Presented Component Units**

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Capital assets not being depreciated					
Land	\$ 4,817,613	\$ 11,700,000	\$ -	\$ -	\$ 16,517,613
Construction in progress	62,036,135	24,842,768	-	(83,001,066)	3,877,837
Total capital assets not being depreciated	<u>66,853,748</u>	<u>36,542,768</u>	<u>-</u>	<u>(83,001,066)</u>	<u>20,395,450</u>
Capital assets being depreciated					
Land improvements	5,368,804	-	(290,239)	3,971,018	9,049,583
Buildings and leasehold improvements	41,915,798	220,161	(880,048)	67,836,676	109,092,587
Equipment and fixtures	64,059,147	8,409,800	(3,293,662)	11,193,372	80,368,657
Vehicles	1,529,843	173,969	-	-	1,703,812
Total capital assets being depreciated	<u>112,873,592</u>	<u>8,803,930</u>	<u>(4,463,949)</u>	<u>83,001,066</u>	<u>200,214,639</u>
Less accumulated depreciation					
Land improvements	(3,075,824)	(512,662)	290,239	-	(3,298,247)
Buildings and leasehold improvements	(14,066,863)	(4,264,637)	880,048	(55,980)	(17,507,432)
Equipment and fixtures	(48,754,100)	(12,010,709)	3,293,662	55,980	(57,415,167)
Vehicles	(872,559)	(195,069)	-	-	(1,067,628)
Total accumulated depreciation	<u>(66,769,346)</u>	<u>(16,983,077)</u>	<u>4,463,949</u>	<u>-</u>	<u>(79,288,474)</u>
Capital assets, net	<u>\$ 112,957,994</u>	<u>\$ 28,363,621</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 141,321,615</u>

For the year ended September 30, 2014, capital assets placed into service increased significantly due to the opening of updated casino facilities and new hotels and convenience stores at the Skiatook and Ponca City locations. Capital assets, net of retirements, placed into service during the year ended September 30, 2014, were \$40,380,085 and \$45,741,649 at Skiatook and Ponca City, respectively.

During the year ended September 30, 2014, the Osage Casinos spent \$5,877,116 for project costs related to architecture and owner representation fees related to a potential expansion/build project at the Tulsa location. During the year ended September 30, 2014, revisions to the potential expansion/build project for the Tulsa location were made, resulting in these costs being expensed. These costs are included in the accompanying combining statement of revenues, expenses and changes in net position for the discretely presented component units.

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In 2014, the Osage Foundation received a major donation of all the shares of Freeman Ranch of Osage County, LLC (the LLC). The LLC owns 9,000 acres of ranch land in Osage County. The terms of the donation entitle the Osage Foundation to future grazing lease revenues on the property, subject to certain conditions. The ranch land shall be used and preserved only for cattle ranching and other directly related organic crop purposes and wildlife. The donor is entitled to a monthly payment from the grazing lease income of \$3,000 per month until the death of the donor and spouse. A reserve of \$5 per acre per year must be established for repairs and maintenance. The land is recorded at estimated fair market value of \$11,700,000. An annuity liability has been established for required future payments to the donor.

**Note 6: Compensated Absences**

Changes in compensated absences for the year ended September 30, 2014, were as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Governmental Activities</b>				
Compensated absences	\$ 482,667	\$ 490,826	\$ (482,667)	\$ 490,826
<b>Business-Type Activities</b>				
Compensated absences	\$ 27,751	\$ 35,688	\$ (27,752)	\$ 35,687

**Note 7: Long-Term Debt**

In 2014, the Nation entered into borrowing agreements with Bank of Oklahoma totaling \$10,000,000 to partially fund the Osage Nation campus construction projects. For purposes of Section 265(b)(3)(B) of the Internal Revenue Code, the notes were issued as qualified tax-exemption obligations. The Notes are \$5,000,000 each with variable interest rates and 10-year fixed principal payments. Note #1 is secured by a \$5,000,000 certificate of deposit and Note #2 is secured by the full faith and credit of the Nation. The Notes have variable interest rates based on the One-Month London InterBank Offered Rate (LIBOR). Note #1 interest rate is One-Month LIBOR plus 1.05% and Note #2 interest rate is One-Month LIBOR plus 1.85%. At September 30, 2014, the interest rate was 1.2045% on Note #1 and 2.0045% on Note #2. Principal payments during fiscal year 2014 were \$250,000 and interest payments were \$34,523.

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

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 1,000,000	\$ 149,271	\$ 1,149,271
2016	1,000,000	133,206	1,133,206
2017	1,000,000	117,141	1,117,141
2018	1,000,000	101,076	1,101,076
2019	1,000,000	85,011	1,085,011
2020–2024	<u>4,750,000</u>	<u>184,413</u>	<u>4,934,413</u>
Total	<u>\$ 9,750,000</u>	<u>\$ 770,118</u>	<u>\$ 10,520,118</u>

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

Osage Casinos had no borrowings or repayments on the line of credit for the year ended September 30, 2014. Osage Casinos had borrowings and repayments of \$15,854,171 on the construction loan agreement for the year ended September 30, 2014.

**Note 8: Self-Insurance**

The Nation is self-insured up to certain limits, for employee group health claims. The Nation has purchased stop-loss insurance, which will reimburse the Nation for individual claims in excess of \$200,000 annually and for aggregate claims with a minimum attachment point of \$11,493,368. The insurance contract runs November 1 through October 31 of the next fiscal year. Operations are charged with the cost of claims reported less stop-loss reimbursement received.

Osage, LLC and Osage Home Health participated in an employee group health plan administered through the Nation through May 2014. As of June 2014, each entity is responsible for maintaining separate insurance coverages for their respective employees.

The Nation's reported employee health claims liability of \$1,150,798 at September 30, 2014, 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.

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The claims liability has been estimated based on open claims at September 30, 2014. The Nation believes that this method of estimating the liability is sufficient to determine the amount of open claims and to provide for claims that have been incurred but not reported (IBNR). Changes in the reported liability follow:

Fiscal Year	Beginning Balance	Current Year Claims and Changes in Estimates	Claim Payments	Ending Balance
2013	\$ 265,909	\$ 5,459,852	\$ 4,980,404	\$ 745,357
2014	\$ 745,357	\$ 4,294,551	\$ 3,889,110	\$ 1,150,798

**Note 9: Osage Nation Members' Health Benefits**

The Nation provides for an annual health benefit for all members. The health benefit provides a maximum of \$500 per year for eligible health care costs for members under age 65 and up to \$1,000 per year for members over age 65. The health benefit plan operates on a calendar year and is administered by a third-party administrator. For fiscal year 2014, the expenditures for member benefits were \$4,748,980. 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, 2014, was \$3,810 and is reported as committed fund balance in the General Fund.

**Note 10: Risk Management**

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

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

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.

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

**Note 11: Deficit Fund Balance**

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

The Nation's Internal Service Fund has a deficit fund balance of \$774,795. The Nation uses the Internal Service Fund to account for the self-insured medical plan provided to employees. The Nation charges each program an estimated premium for each covered employee to cover the costs of claims paid. The amount charged is updated annually to reflect current costs. The Nation believes the increases in future premiums will be sufficient to cover the deficit.

**Note 12: Fund Equity**

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

	General Fund	Department of Housing and Urban Development	Department of Health and Human Services	Department of the Interior	Department of Transportation	Department of Agriculture	Other Governmental Funds	Total Governmental Funds
<b>Restricted</b>								
Restricted for education	\$ 1,862,753	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,862,753
Restricted for campus master plan	9,969,240	-	-	-	-	-	-	9,969,240
Restricted for collateral pledge	5,000,000	-	-	-	-	-	-	5,000,000
Restricted for purpose specified in the grant agreement	-	35,390	-	-	-	73,136	-	108,526
	<u>16,831,993</u>	<u>35,390</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,136</u>	<u>-</u>	<u>16,940,519</u>
<b>Committed</b>								
Program purposes	-	-	232,183	48,566	893,681	-	-	1,174,430
Burial assistance	111,490	-	-	-	-	-	-	111,490
Education scholarships	4,181,157	-	-	-	-	-	-	4,181,157
Minerals Council programs	1,666,088	-	-	-	-	-	-	1,666,088
Health benefits	3,810	-	-	-	-	-	-	3,810
Restricted property purchase	593,622	-	-	-	-	-	-	593,622
Permanent Fund	30,000,000	-	-	-	-	-	-	30,000,000
Campus construction	4,086,435	-	-	-	-	-	-	4,086,435
Capital improvements	1,408,038	-	-	-	-	-	-	1,408,038
Capital – Fairfax Family Center	3,331,057	-	-	-	-	-	-	3,331,057
Osage War Memorial	150,000	-	-	-	-	-	-	150,000
Pawhuska 5 Man Board	73,873	-	-	-	-	-	-	73,873
Regional Gathering Fund	16,443	-	-	-	-	-	-	16,443
Bar Association/Codification Fund/Court Fees	39,085	-	-	-	-	-	-	39,085
Total committed	<u>45,661,098</u>	<u>-</u>	<u>232,183</u>	<u>48,566</u>	<u>893,681</u>	<u>-</u>	<u>-</u>	<u>46,835,528</u>
<b>Assigned</b>								
Tribal supplements	-	-	-	-	-	-	154,757	154,757
<b>Unassigned</b>								
	<u>(1,305,621)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,305,621)</u>
Total fund balance	<u>\$ 61,187,470</u>	<u>\$ 35,390</u>	<u>\$ 232,183</u>	<u>\$ 48,566</u>	<u>\$ 893,681</u>	<u>\$ 73,136</u>	<u>\$ 154,757</u>	<u>\$ 62,625,183</u>

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

**Note 13: Retirement Plan**

***Governmental, Fiduciary Funds and Business-Type Activities***

Effective March 19, 2010, the Nation entered into a 401(k) plan administered by John Hancock. The Nation will match up to 5% of each employee's actual compensation. Employee contributions are allowed up to the annual limits as established by the Internal Revenue Service. The employees are 100% vested in the 401(k) plan. Contributions made by the employees to the 401(k) plan for the year ended September 30, 2014, were \$573,170. Contributions made by the Nation to the 401(k) plan for the employees for the year ended September 30, 2014, were \$439,130.

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, 2014, were \$21,582. Contributions made by the Nation to the Congressional 401(k) plan for the year ended September 30, 2014, were \$21,582.

***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 \$1,094,867 and employee contributions were \$1,265,399 for the year ended September 30, 2014.

**Note 14: Tobacco Compact**

The Osage Nation and the State of Oklahoma entered into a new 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 2014, the Nation received \$2,144,389 in revenue under this compact.

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**Note 15: Related-Party Transactions**

***Governmental Activities***

Osage Casinos distributed \$40,466,070 to the Nation. Osage Nation distributed \$80,000 to Osage Home Health to provide working capital and \$127,696 to ONES, LLC for the purchase of a building.

***Discretely Presented Component Units***

During 2014, Osage Casinos made payments to Osage Manhattan Builders, LLC, an investment of Osage, LLC, in the amount of \$22,063,253 related to construction of two new casinos in Skiatook and Ponca City.

**Note 16: Commitments**

***Gaming Device Leases and Wide-Area Progressive Agreements***

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

Total payments under these agreements were \$19,182,336 for the year ended September 30, 2014.

***Construction Projects***

The Nation began a construction project in FY2014 for two new office buildings totaling \$23,000,000. The Nation committed Tribal funds of \$13,000,000 and entered into a loan agreement for \$10,000,000 in 2014. As of September 30, 2014, the Nation's expenditures for construction totaled \$8,849,603, which is reflected in the accompanying government-wide financial statements as construction in progress. The remaining restriction and commitment of funds is reflected in the accompanying fund statements as restricted fund balance (\$9,969,240) and committed fund balance (\$4,181,157). The restricted portion is unspent loan proceeds and the committed portion is the remaining portion of the original \$13,000 commitment for campus construction.

The Nation operates a road construction program funded through the U.S. Department of Transportation. Funds committed, but unspent, at year-end are reflected in the assigned fund balance as encumbrances.

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**Note 17: Contingent Liabilities**

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

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

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

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

Subsequent to September 30, 2014, the U.S. Department of Health and Human Services (DHHS) IG notified the Nation of an audit of two grant programs funded through DHHS, Temporary Assistance to Needy Families and Low Income Heating and Energy Assistance Program. The Nation is in the process of working with the IG to provide the information requested and does not expect to have any material findings or return of funding from the review.