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# The Pokagon Fund, Inc.

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**Modified Cash Basis Financial Report  
June 30, 2019**

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## **Independent Auditor's Report**

To the Board of Directors  
The Pokagon Fund, Inc.

We have audited the accompanying modified cash basis financial statements of The Pokagon Fund, Inc. (the "Fund"), which comprise the modified cash basis balance sheet arising from modified cash transactions as of June 30, 2019 and 2018 and the related modified cash basis statements of revenue collected and expenses paid, functional expenses, and cash flows for the years then ended, and the related notes to the modified cash basis financial statements.

### ***Management's Responsibility for the Modified Cash Basis Financial Statements***

Management is responsible for the preparation and fair presentation of these modified cash basis financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of modified cash basis financial statements that are free from material misstatement, whether due to fraud or error.

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

Our responsibility is to express an opinion on these modified cash basis financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the modified cash basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the modified cash basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the modified cash basis 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 modified cash basis 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 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 modified cash basis financial statements.

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

### ***Opinion***

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the balance sheet arising from modified cash transactions of The Pokagon Fund, Inc. as of June 30, 2019 and 2018 and its revenue collected and expenses paid, functional expenses, and cash flows for the years then ended in accordance with the modified cash basis of accounting described in Note 2.

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

As described in Note 2 to the modified cash basis financial statements, the Fund adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities - Presentation of Financial Statements of Not-for-Profit Entities*, for the year ended June 30, 2019. The ASU has been applied retrospectively. Our opinion is not modified with respect to this matter.

To the Board of Directors  
The Pokagon Fund, Inc.

***Basis of Accounting***

We draw attention to Note 2 to the modified cash basis financial statements, which describes the basis of accounting. The modified cash basis financial statements are prepared on the modified cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

*Plante & Moran, PLLC*

November 25, 2019

## Modified Cash Basis Balance Sheet

June 30, 2019 and 2018

	2019	2018
<b>Assets</b>		
Cash	\$ 665,447	\$ 413,021
Investments (Note 3)	6,577,534	6,105,176
Property and equipment - Net (Note 4)	462,453	479,565
Total assets	<u><u>\$ 7,705,434</u></u>	<u><u>\$ 6,997,762</u></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b> - Payroll tax liabilities	\$ 2,117	\$ 5,539
<b>Net Assets without Donor Restrictions</b>	7,703,317	6,992,223
Total liabilities and net assets	<u><u>\$ 7,705,434</u></u>	<u><u>\$ 6,997,762</u></u>

## The Pokagon Fund, Inc.

# Modified Cash Basis Statement of Revenue Collected and Expenses Paid

Years Ended June 30, 2019 and 2018

	2019	2018
<b>Changes in Net Assets without Donor Restrictions</b>		
Revenue, gains, and other support:		
Four Winds Casino revenue sharing	\$ 1,573,094	\$ 1,583,302
Net realized and unrealized gain on investments	318,134	24,214
Dividends and interest income - Net	160,007	125,950
Loss on disposal of fixed assets	(270)	-
Miscellaneous income	-	3,660
Total revenue, gains, and other support	2,050,965	1,737,126
Expenses:		
Program expenses	1,085,891	1,702,070
Management and general	253,980	267,967
Total expenses	1,339,871	1,970,037
<b>Increase (Decrease) in Net Assets</b>	711,094	(232,911)
<b>Net Assets - Beginning of year</b>	6,992,223	7,225,134
<b>Net Assets - End of year</b>	<b>\$ 7,703,317</b>	<b>\$ 6,992,223</b>

## The Pokagon Fund, Inc.

# Modified Cash Basis Statement of Functional Expenses

Year Ended June 30, 2019

	Program Services	Management and General	Total
Pokagon Band grants	\$ 139,374	\$ -	\$ 139,374
Municipal grants	541,510	-	541,510
Discretionary/Nonprofit grants	237,186	-	237,186
Scholarships	37,842	-	37,842
Grant disbursements	955,912	-	955,912
Repairs and maintenance	690	6,216	6,906
Utilities	632	5,691	6,323
Office supplies	-	16,682	16,682
Director's stipends	1,100	9,900	11,000
Salaries	99,056	132,523	231,579
Employee benefits	8,072	9,925	17,997
Payroll taxes	7,701	10,568	18,269
Technology expense	578	5,204	5,782
Professional fees	-	17,470	17,470
Insurance	474	4,262	4,736
Advertising	6,545	9,815	16,360
Dues and subscriptions	-	2,300	2,300
Travel	591	1,380	1,971
Education and seminars	-	665	665
Meals and entertainment	2,856	1,224	4,080
Federal and foreign taxes paid	-	4,997	4,997
Depreciation	1,684	15,158	16,842
Total functional expenses	<b>\$ 1,085,891</b>	<b>\$ 253,980</b>	<b>\$ 1,339,871</b>

## The Pokagon Fund, Inc.

# Modified Cash Basis Statement of Functional Expenses

Year Ended June 30, 2018

	Program Services	Management and General	Total
Pokagon Band grants	\$ 108,205	\$ -	\$ 108,205
Municipal grants	1,071,219	-	1,071,219
Discretionary/Nonprofit grants	311,388	-	311,388
Scholarships	81,775	-	81,775
Grant disbursements	1,572,587	-	1,572,587
Repairs and maintenance	1,705	15,351	17,056
Utilities	619	5,572	6,191
Office supplies	-	16,376	16,376
Director's stipends	1,080	9,720	10,800
Salaries	85,631	121,024	206,655
Employee benefits	3,760	3,926	7,686
Payroll taxes	6,917	9,416	16,333
Technology expense	315	2,836	3,151
Professional fees	-	18,302	18,302
Insurance	441	3,968	4,409
Advertising	24,183	36,275	60,458
Dues and subscriptions	-	2,250	2,250
Travel	697	1,627	2,324
Education and seminars	-	2,200	2,200
Meals and entertainment	2,507	1,075	3,582
Federal and foreign taxes paid	-	3,396	3,396
Depreciation	1,628	14,653	16,281
Total functional expenses	<u>\$ 1,702,070</u>	<u>\$ 267,967</u>	<u>\$ 1,970,037</u>

## The Pokagon Fund, Inc.

# Modified Cash Basis Statement of Cash Flows

Years Ended June 30, 2019 and 2018

	2019	2018
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 711,094	\$ (232,911)
Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities:		
Depreciation	16,842	16,281
Loss on disposal of property and equipment	270	-
Realized and unrealized gain on investments	(318,134)	(24,214)
Changes in operating assets and liabilities that (used) provided cash - Payroll tax liabilities	(3,422)	1,248
Net cash provided by (used in) operating activities	406,650	(239,596)
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	-	(7,071)
Purchases of investments	(1,429,703)	(1,256,712)
Proceeds from sales and maturities of investments	1,275,479	1,634,335
Net cash (used in) provided by investing activities	(154,224)	370,552
<b>Net Increase in Cash</b>	252,426	130,956
<b>Cash - Beginning of year</b>	413,021	282,065
<b>Cash - End of year</b>	<u>\$ 665,447</u>	<u>\$ 413,021</u>

**Notes to Modified Cash Basis Financial Statements**

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**June 30, 2019 and 2018**

**Note 1 - Nature of Business**

The Pokagon Fund, Inc. (the "Fund") is a Michigan nonprofit organization whose purpose is to enhance the lives of the residents in the New Buffalo region through the financial support of local governments, nonprofits, charities, and other organizations.

**Note 2 - Significant Accounting Policies**

***Basis of Presentation***

The financial statements of the Fund are prepared on the modified cash basis of accounting, modified to record the Fund's property and equipment at cost, provide for depreciation of such assets over their estimated useful lives, and report investments at fair value. The modified cash basis of accounting is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this modified cash basis of accounting, revenue is recognized when received rather than when earned, and expenses are recorded when paid rather than when incurred.

***Investments***

Investments are carried at fair value. Investments consist of marketable securities, bonds, brokered CDs, and money market funds recorded at their current market value. The Fund has authorized Trust Company of Toledo to manage the investment activity of the Fund. Fees are paid to this entity and reported within dividend and interest income - net on the modified cash basis statement of revenue collected and expenses paid.

***Risks and Uncertainties***

The Fund invests in various investment securities. Investment securities are exposed to various risks, such as interest rate, market, and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the modified cash basis financial statements.

***Property and Equipment***

Property and equipment are recorded at their estimated fair value at the date donated or at cost, if purchased. The straight-line method is used for computing depreciation. Assets are depreciated over their estimated useful lives, ranging from 3 to 39 years. The Fund follows the practice of capitalizing all expenditures for property and equipment in excess of \$1,000. Costs of maintenance and repairs are charged to expense when incurred.

***Revenue Sharing***

Revenue-sharing cash is reported as revenue when received and reported as support without donor restrictions.

The Fund is supported by a percentage of the electronic gaming revenue from the Four Winds Casino and is managed by a seven-member board of directors. The income from the Four Winds Casino was 2 percent of the net win during the first and second years of operations, reduced to 1 percent during the third, fourth, and fifth years. Beginning in August 2012, the income from the Four Winds Casino was reduced to three quarters of 1 percent of net win and will remain at that level during each subsequent year of operation.

## Notes to Modified Cash Basis Financial Statements

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June 30, 2019 and 2018

### **Note 2 - Significant Accounting Policies (Continued)**

#### ***Functional Allocation of Expenses***

Costs of providing the program and support services have been reported on a functional basis in the modified cash basis statement of functional expenses. The financial statements report certain categories of expenses that are attributable to more than one program or supporting function. Therefore, these expenses required allocation on a reasonable basis that is consistently applied. Salaries and related expenses are allocated on the basis of time and effort. Expenses deemed to be indirect to employee work, such as professional services, insurance, and office supplies, are considered to be management and general expenses. Other expenses utilized by all employees, such as occupancy, utilities, and training, are also allocated on the basis of time and effort. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

#### ***Classification of Net Assets***

Net assets of the Fund are classified based on the presence or absence of donor-imposed restrictions.

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions or for which the donor-imposed restrictions have expired or been fulfilled. Net assets in this category may be expended for any purpose in performing the primary objectives of the Fund.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Fund or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity. As of June 30, 2019 and 2018, the Fund has no net assets with donor restrictions.

#### ***Income Taxes***

The Fund is a not-for-profit corporation and is exempt from tax under the provisions of Internal Revenue Code Section 501(c)(3).

#### ***Use of Estimates***

The preparation of financial statements in conformity with the modified cash basis of accounting 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 collected and expenses paid during the reporting period. Actual results could differ from those estimates.

#### ***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including November 25, 2019, which is the date the financial statements were available to be issued.

Notes to Modified Cash Basis Financial Statements

June 30, 2019 and 2018

**Note 2 - Significant Accounting Policies (Continued)**

**Adoption of New Accounting Pronouncement**

For the year ended June 30, 2019, the Fund adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. In addition, the underwater portion of donor-restricted endowments is now reported as net assets with donor restrictions. This standard also requires changes in the way certain information is aggregated and reported by the Fund, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general. As a result of the adoption of this standard, \$224,869 has been reclassified from program expenses to management and general expenses. In addition, \$18,970 of investment expense has been reclassified from expense to investment income for the year ended June 30, 2018. The standard has been implemented retrospectively.

**Note 3 - Investments**

Investments consisted of the following at June 30:

	2019		2018	
	Amortized Cost	Market	Amortized Cost	Market
U.S. government notes and bonds	\$ 1,657,933	\$ 1,669,711	\$ 2,147,624	\$ 2,105,740
Government agency securities	249,559	248,906	449,487	443,372
GNMA pools	62,104	61,222	85,229	83,644
Mortgage-backed pools	157,475	153,932	201,226	191,456
Corporate bonds	1,194,895	1,223,415	1,194,895	1,207,168
Money market	242,473	242,473	47,989	47,989
Common stocks	1,267,619	1,791,154	1,199,082	1,496,274
Real estate investment trust	18,850	30,803	18,850	26,227
International equity fund	338,528	356,310	186,888	201,095
U.S. equity fund	399,150	438,657	186,183	203,175
U.S. Treasury bills	-	-	98,969	99,036
Brokered CD	350,000	360,951	-	-
<b>Total</b>	<b>\$ 5,938,586</b>	<b>\$ 6,577,534</b>	<b>\$ 5,816,422</b>	<b>\$ 6,105,176</b>

Investment income is composed of the following at June 30:

	2019	2018
Interest income	\$ 95,929	\$ 82,606
Dividend income	83,474	62,314
Realized and unrealized gain	318,134	24,214
Investment commissions and fees	(19,396)	(18,970)
<b>Total</b>	<b>\$ 478,141</b>	<b>\$ 150,164</b>

**Notes to Modified Cash Basis Financial Statements**

**June 30, 2019 and 2018**

**Note 4 - Property and Equipment**

Property and equipment are summarized as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 36,500	\$ 36,500
Land improvements	10,484	10,484
Buildings	563,231	563,231
Furniture and fixtures	<u>56,991</u>	<u>58,345</u>
Total cost	667,206	668,560
Less accumulated depreciation	<u>204,753</u>	<u>188,995</u>
Net property and equipment	<u>\$ 462,453</u>	<u>\$ 479,565</u>

Depreciation expense for 2019 and 2018 was \$16,842 and \$16,281, respectively.

**Note 5 - Granting Policy**

The Pokagon Fund, Inc. distributes its monies as follows in accordance with the local agreement dated March 13, 2000:

- 10 percent of all distributions in each fiscal year shall be allocated to communities surrounding the Pokagon Band of Potawatomi Indians (the "Band") trust land and consolidation sites in Michigan and Indiana, where the Band is not conducting Class III gaming.
- 45 percent of all distributions in each fiscal year shall be allocated to projects approved by the board within or benefiting the New Buffalo region.
- 45 percent of all distributions in each fiscal year shall be allocated as follows:
  - 21 percent made to and for projects in New Buffalo Township
  - 14 percent made to and for projects in the City of New Buffalo, Michigan
  - 2 percent made to and for projects in the Township of Chikaming
  - 2 percent made to and for projects in the Township of Three Oaks
  - 2 percent made to and for projects in the New Buffalo School District
  - 1 percent made to and for projects in the Village of Three Oaks, Michigan
  - 1 percent made to and for projects in the Village of Michiana, Michigan
  - 1 percent made to and for projects in the Village of Grand Beach, Michigan
  - 1 percent made to and for projects in the River Valley School District

Two board members are also representatives of New Buffalo Township and the City of New Buffalo, Michigan for which grant distributions are made in accordance with the above policy.

The Fund had approximately \$713,000 and \$710,000 in grant commitments outstanding at June 30, 2019 and 2018, respectively.

## Notes to Modified Cash Basis Financial Statements

June 30, 2019 and 2018

### Note 6 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Fund's assets measured at fair value on a recurring basis at June 30, 2019 and 2018 and the valuation techniques used by the Fund to determine those fair values.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Fund has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs, such as interest rates and yield curves, that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Fund's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

Assets Measured at Fair Value on a Recurring Basis at  
June 30, 2019

	Quoted Prices in			Balance at June 30, 2019
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
<b>Assets</b>				
Investments:				
U.S. government notes and bonds	\$ 1,669,711	\$ -	\$ -	\$ 1,669,711
Government agency securities	-	248,906	-	248,906
GNMA pools	-	61,222	-	61,222
Mortgage-backed pools	-	153,932	-	153,932
Corporate bonds	-	1,223,415	-	1,223,415
Money market	242,473	-	-	242,473
Common stock	1,791,154	-	-	1,791,154
Real estate investment trust	30,803	-	-	30,803
International equity fund	356,310	-	-	356,310
U.S. equity fund	438,657	-	-	438,657
Brokered CD	-	360,951	-	360,951
<b>Total assets</b>	<b>\$ 4,529,108</b>	<b>\$ 2,048,426</b>	<b>\$ -</b>	<b>\$ 6,577,534</b>

Notes to Modified Cash Basis Financial Statements

June 30, 2019 and 2018

Note 6 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2018			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at June 30, 2018
<b>Assets</b>				
Investments:				
U.S. government notes and bonds	\$ 2,105,740	\$ -	\$ -	\$ 2,105,740
Government agency securities	-	443,372	-	443,372
GNMA pools	-	83,644	-	83,644
Mortgage-backed pools	-	191,456	-	191,456
Corporate bonds	-	1,207,168	-	1,207,168
Money market	47,989	-	-	47,989
Common stock	1,496,274	-	-	1,496,274
Real estate investment trust	26,227	-	-	26,227
International equity fund	201,095	-	-	201,095
U.S. equity fund	203,175	-	-	203,175
U.S. treasury bills	99,036	-	-	99,036
Total assets	\$ 4,179,536	\$ 1,925,640	\$ -	\$ 6,105,176

The fair value of government agency securities, GNMA pools, mortgage-backed pools, corporate bonds, and brokered CDs at June 30, 2019 and 2018 was determined primarily based on Level 2 inputs. The Fund estimates the fair value of these investments using contractual cash flows, interest rate benchmark yields, and yield curves that are observable at commonly quoted intervals.

Note 7 - Liquidity and Availability of Resources

The Fund has \$7,242,981 and \$6,518,197 of financial assets available within one year of the modified cash basis balance sheet date to meet cash needs for general expenditure consisting of cash of \$665,447 and \$413,021 and investments of \$6,577,534 and \$6,105,176 at June 30, 2019 and 2018, respectively. None of the financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the modified cash basis balance sheet date.

The Fund has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet 60 days of normal operating expenses, which are, on average, approximately \$276,000. The Fund has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, as part of its liquidity management, the Fund invests cash in excess of daily requirements in various investments.