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The Pokagon Fund, Inc.

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**Modified Cash Basis Financial Report**  
**June 30, 2018**

<b>Independent Auditor's Report</b>	1-2
<b>Modified Cash Basis Financial Statements</b>	
Balance Sheet	3
Statement of Revenue Collected and Expenses Paid	4
Statement of Functional Expenses	5-6
Statement of Cash Flows	7
Notes to Modified Cash Basis Financial Statements	8-12

## 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, 2018 and 2017 and the related modified cash basis statements of revenue collected and expenses paid, of 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 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 opinions.

### ***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, 2018 and 2017 and its revenue collected and expenses paid, functional expenses, and of cash flows for the years then ended in accordance with the modified cash basis of accounting described in Note 2.

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 6, 2018

**Modified Cash Basis Balance Sheet**

**June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Assets</b>		
Cash	\$ 413,021	\$ 282,065
Investments (Note 3)	6,105,176	6,458,585
Property and equipment - Net (Note 4)	<u>479,565</u>	<u>488,775</u>
Total assets	<u><b>\$ 6,997,762</b></u>	<u><b>\$ 7,229,425</b></u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b> - Payroll tax liabilities	\$ 5,539	\$ 4,291
<b>Net Assets</b> - Unrestricted	<u>6,992,223</u>	<u>7,225,134</u>
Total liabilities and net assets	<u><b>\$ 6,997,762</b></u>	<u><b>\$ 7,229,425</b></u>

**Modified Cash Basis Statement of  
Revenue Collected and Expenses Paid**

**Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Changes in Unrestricted Net Assets</b>		
Revenue, gains, and other support:		
Four Winds Casino revenue sharing	\$ 1,583,302	\$ 1,697,748
Investment income	144,920	151,362
Net realized and unrealized gain on investments	24,214	165,082
Miscellaneous income	3,660	180
Total revenue, gains, and other support	<u>1,756,096</u>	<u>2,014,372</u>
Expenses:		
Program expenses	1,926,939	1,468,041
Management and general	62,068	51,393
Total expenses	<u>1,989,007</u>	<u>1,519,434</u>
<b>(Decrease) Increase in Net Assets</b>	(232,911)	494,938
<b>Net Assets - Beginning of year</b>	<u>7,225,134</u>	<u>6,730,196</u>
<b>Net Assets - End of year</b>	<u><u>\$ 6,992,223</u></u>	<u><u>\$ 7,225,134</u></u>

## The Pokagon Fund, Inc.

# Modified Cash Basis Statement of Functional Expenses

Year Ended June 30, 2018

	Program Expenses	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	15,351	1,706	17,057
Utilities	5,572	619	6,191
Office supplies	14,738	1,638	16,376
Director's stipends	9,720	1,080	10,800
Salaries	185,990	20,666	206,656
Payroll taxes	14,700	1,633	16,333
Pension expense	6,917	769	7,686
Technology expense	2,836	315	3,151
Professional fees	9,318	8,984	18,302
Insurance	3,968	441	4,409
Advertising	60,458	-	60,458
Dues and subscriptions	2,025	225	2,250
Travel	2,324	-	2,324
Education and seminars	2,200	-	2,200
Meals and entertainment	3,582	-	3,582
Investment fees	-	18,968	18,968
Federal and foreign taxes paid	-	3,396	3,396
Depreciation	14,653	1,628	16,281
Total functional expenses	<u>\$ 1,926,939</u>	<u>\$ 62,068</u>	<u>\$ 1,989,007</u>

## The Pokagon Fund, Inc.

# Modified Cash Basis Statement of Functional Expenses

Year Ended June 30, 2017

	Program Expenses	Management and General	Total
Pokagon Band grants	\$ 145,315	\$ -	\$ 145,315
Municipal grants	747,650	-	747,650
Discretionary/Nonprofit grants	131,446	-	131,446
Scholarships	162,549	-	162,549
Grant disbursements	1,186,960	-	1,186,960
Repairs and maintenance	2,906	323	3,229
Utilities	5,313	590	5,903
Office supplies	12,199	1,355	13,554
Director's stipends	9,090	1,010	10,100
Salaries	157,443	17,494	174,937
Payroll taxes	12,518	1,391	13,909
Pension expense	6,517	724	7,241
Technology expense	7,604	845	8,449
Professional fees	26,315	10,624	36,939
Insurance	4,070	452	4,522
Advertising	11,356	-	11,356
Dues and subscriptions	2,801	311	3,112
Travel	2,611	-	2,611
Education and seminars	1,249	-	1,249
Meals and entertainment	2,507	-	2,507
Investment fees	-	13,389	13,389
Bank service fees	-	29	29
Federal and foreign taxes paid	-	1,014	1,014
Depreciation	16,582	1,842	18,424
Total functional expenses	<b>\$ 1,468,041</b>	<b>\$ 51,393</b>	<b>\$ 1,519,434</b>

See notes to modified cash basis financial statements.



## The Pokagon Fund, Inc.

# Modified Cash Basis Statement of Cash Flows

Years Ended June 30, 2018 and 2017

	2018	2017
<b>Cash Flows from Operating Activities</b>		
(Decrease) increase in net assets	\$ (232,911)	\$ 494,938
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Depreciation	16,281	18,424
Realized and unrealized gain on investments	(24,214)	(165,082)
Changes in operating assets and liabilities which provided cash - Payroll tax liabilities	1,248	352
Net cash (used in) provided by operating activities	(239,596)	348,632
<b>Cash Flows from Investing Activities</b>		
Purchase of property and equipment	(7,071)	-
Purchases of investments	(1,256,712)	(1,979,238)
Proceeds from sales and maturities of investments	1,634,335	1,342,131
Net cash provided by (used in) investing activities	370,552	(637,107)
<b>Net Increase (Decrease) in Cash</b>	130,956	(288,475)
<b>Cash - Beginning of year</b>	282,065	570,540
<b>Cash - End of year</b>	<u>\$ 413,021</u>	<u>\$ 282,065</u>

## Notes to Modified Cash Basis Financial Statements

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June 30, 2018 and 2017

### **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, as required under accounting principles generally accepted in the United States of America, but are not always presented as such under the modified cash basis of accounting. Investments consist of marketable securities, bonds, and money market funds recorded at their current market value and certificates of deposit recorded at cost. The Fund has authorized Trust Company of Toledo to manage the investment activity of the Fund. Fees are paid to this entity.

#### ***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 \$500. 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 unrestricted support.

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.

#### ***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 revenue collected and expenses paid. Costs have been allocated among program and support services on several bases and estimates. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

## Notes to Modified Cash Basis Financial Statements

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June 30, 2018 and 2017

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

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

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

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

Temporarily restricted net assets of the Fund consist of amounts received from donors who have specified the purpose for which or the timing of when the funds are to be spent. The Fund has interpreted donor restrictions to also include related earnings as restricted for the intended purpose of the original donation. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are released to unrestricted net assets. There are no temporarily restricted net assets as of June 30, 2018 and 2017.

Permanently restricted net assets consist of amounts received from donors who have specified that the principal of the donation is to remain intact for investment purposes. There are no permanently restricted net assets as of June 30, 2018 and 2017.

#### ***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).

#### ***Reclassification***

Certain 2017 amounts have been reclassified to conform to the 2018 presentation. Purchases and sales of investments are now shown gross on the modified cash basis statement of cash flows.

#### ***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 6, 2018, which is the date the financial statements were available to be issued.

#### ***Upcoming Accounting Pronouncement***

In August 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by the Fund, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Fund's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. The Fund is currently gathering information to implement these new disclosures in a timely manner. The Fund expects enhanced disclosures surrounding functional and natural classification of expenses and the addition of liquidity disclosures.

**Notes to Modified Cash Basis Financial Statements**

**June 30, 2018 and 2017**

**Note 3 - Investments**

Investments consisted of the following at June 30:

	2018		2017	
	Amortized Cost	Market	Amortized Cost	Market
U.S. government notes and bonds	\$ 2,147,624	\$ 2,105,740	\$ 1,011,906	\$ 1,013,834
Government agency securities	449,487	443,372	349,487	346,839
GNMA pools	85,229	83,644	131,502	129,906
Mortgage-backed pools	201,226	191,456	263,085	257,471
Corporate bonds	1,194,895	1,207,168	1,494,495	1,549,683
Money market	47,989	47,989	939,310	939,310
Common stocks	1,199,082	1,496,274	1,345,118	1,641,302
Real estate investment trust	18,850	26,227	28,024	36,824
International equity fund	186,888	201,095	222,066	235,761
U.S. equity fund	186,183	203,175	271,646	252,119
Equity fund - REIT	-	-	61,005	55,536
U.S. Treasury bills	98,969	99,036	-	-
<b>Total</b>	<b>\$ 5,816,422</b>	<b>\$ 6,105,176</b>	<b>\$ 6,117,644</b>	<b>\$ 6,458,585</b>

Investment income is composed of the following at June 30:

	2018	2017
Interest income	\$ 82,606	\$ 78,477
Dividend income	62,314	72,885
Realized and unrealized gain	24,124	165,082
<b>Total</b>	<b>\$ 169,044</b>	<b>\$ 316,444</b>

**Note 4 - Property and Equipment**

Property and equipment are summarized as follows:

	2018	2017
Land	\$ 36,500	\$ 36,500
Land improvements	10,484	10,484
Buildings	563,231	563,231
Furniture and fixtures	58,345	51,274
<b>Total cost</b>	<b>668,560</b>	<b>661,489</b>
Less accumulated depreciation	188,995	172,714
<b>Net property and equipment</b>	<b>\$ 479,565</b>	<b>\$ 488,775</b>

Depreciation expense for 2018 and 2017 was \$16,281 and \$18,424, 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.

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## Notes to Modified Cash Basis Financial Statements

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June 30, 2018 and 2017

### **Note 5 - Granting Policy (Continued)**

- 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 \$710,000 and \$1,830,000 in grant commitments outstanding at June 30, 2018 and 2017, respectively.

### **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, 2018 and 2017 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.

Notes to Modified Cash Basis Financial Statements

June 30, 2018 and 2017

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
<b>Total assets</b>	<b>\$ 4,179,536</b>	<b>\$ 1,925,640</b>	<b>\$ -</b>	<b>\$ 6,105,176</b>

	Assets Measured at Fair Value on a Recurring Basis at June 30, 2017			
	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, 2017
<b>Assets</b>				
Investments:				
U.S. government notes and bonds	\$ 1,013,834	\$ -	\$ -	\$ 1,013,834
Government agency securities	-	346,839	-	346,839
GNMA pools	-	129,906	-	129,906
Mortgage-backed pools	-	257,471	-	257,471
Corporate bonds	-	1,549,683	-	1,549,683
Money market	939,310	-	-	939,310
Common stock	1,641,302	-	-	1,641,302
Real estate investment trust	36,824	-	-	36,824
International equity fund	235,761	-	-	235,761
U.S. equity fund	252,119	-	-	252,119
Equity Fund - REIT	55,536	-	-	55,536
<b>Total assets</b>	<b>\$ 4,174,686</b>	<b>\$ 2,283,899</b>	<b>\$ -</b>	<b>\$ 6,458,585</b>

The fair value of government agency securities, GNMA pools, mortgage-backed pools, and corporate bonds at June 30, 2018 and 2017 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.