

The Pokagon Fund, Inc.

**Financial Report
with Additional Information
June 30, 2017**

The Pokagon Fund, Inc.

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Independent Auditor's Report

To the Board of Directors
The Pokagon Fund, Inc.

We have audited the accompanying financial statements of The Pokagon Fund, Inc. (the "Fund"), which comprise the balance sheet arising from modified cash transactions as of June 30, 2017 and 2016 and the related modified cash basis statements of revenue collected and expenses paid and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note I; 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 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 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 financial statements are free from material misstatement.

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 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 opinion.

To the Board of Directors
The Pokagon Fund, Inc.

Opinion

In our opinion, the 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, 2017 and 2016 and the related modified cash basis statements of revenue collected and expenses paid and cash flows for the year then ended in accordance with the modified cash basis of accounting described in Note I.

Other Matter - Basis of Accounting

We draw attention to Note I to the financial statements, which describes the basis of accounting. The 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

October 9, 2017

The Pokagon Fund, Inc.

Balance Sheet Modified Cash Basis

| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
|--|----------------------|----------------------|
| Assets | | |
| Cash | \$ 282,065 | \$ 570,540 |
| Investments (Note 2) | 6,458,585 | 5,656,396 |
| Property and equipment - Net (Note 3) | 488,775 | 507,199 |
| Total assets | <u>\$ 7,229,425</u> | <u>\$ 6,734,135</u> |
| Liabilities and Net Assets | | |
| Liabilities - Payroll tax liabilities | \$ 4,291 | \$ 3,939 |
| Net Assets - Unrestricted | <u>7,225,134</u> | <u>6,730,196</u> |
| Total liabilities and net assets | <u>\$ 7,229,425</u> | <u>\$ 6,734,135</u> |

The Pokagon Fund, Inc.

Statement of Revenue Collected and Expenses Paid Modified Cash Basis

| | Year Ended | |
|--|--|--|
| | <u>June 30, 2017</u> (Unrestricted) | <u>June 30, 2016</u> (Unrestricted) |
| Revenue, Gains, and Other Support | | |
| Four Winds Casino revenue sharing | \$ 1,697,748 | \$ 1,804,526 |
| Investment income | 151,362 | 183,741 |
| Net realized and unrealized gain (loss) on investments | 165,082 | (3,077) |
| Miscellaneous income | 180 | - |
| Total revenue, gains, and other support | <u>2,014,372</u> | <u>1,985,190</u> |
| Expenses | | |
| Program services | 1,468,041 | 2,510,395 |
| Management and general | 51,393 | 74,974 |
| Total expenses | <u>1,519,434</u> | <u>2,585,369</u> |
| Increase (Decrease) in Net Assets | 494,938 | (600,179) |
| Net Assets - Beginning of year | <u>6,730,196</u> | <u>7,330,375</u> |
| Net Assets - End of year | <u><u>\$ 7,225,134</u></u> | <u><u>\$ 6,730,196</u></u> |

The Pokagon Fund, Inc.

Statement of Cash Flows Modified Cash Basis

| | Year Ended | |
|---|--------------------------|--------------------------|
| | <u>June 30, 2017</u> | <u>June 30, 2016</u> |
| Cash Flows from Operating Activities | | |
| Increase (decrease) in net assets | \$ 494,938 | \$ (600,179) |
| Adjustments to reconcile increase (decrease) in net assets to net cash from operating activities: | | |
| Depreciation | 18,424 | 18,845 |
| Realized and unrealized (gain) loss on investments | (165,082) | 3,077 |
| Changes in operating liabilities which provided cash - Payroll tax liabilities | 352 | 1,958 |
| | <u>348,632</u> | <u>(576,299)</u> |
| Net cash provided by (used in) operating activities | 348,632 | (576,299) |
| Cash Flows from Investing Activities | | |
| Net (purchases of) proceeds from investments | (637,107) | 628,851 |
| Purchase of property and equipment | - | (1,354) |
| | <u>(637,107)</u> | <u>627,497</u> |
| Net cash (used in) provided by investing activities | (637,107) | 627,497 |
| Net (Decrease) Increase in Cash | (288,475) | 51,198 |
| Cash - Beginning of year | 570,540 | 519,342 |
| Cash - End of year | <u>\$ 282,065</u> | <u>\$ 570,540</u> |

The Pokagon Fund, Inc.

Notes to Financial Statements June 30, 2017 and 2016

Note I - Nature of Business and Significant Accounting Policies

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.

Basis of Accounting - The accompanying financial statements have been prepared on the modified cash basis of accounting, except that the statements include investments recorded at market 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. It differs from financial statements presented in conformity with accounting principles generally accepted in the United States of America in that revenue and expenses are recorded as cash is actually received and expended, rather than recording revenue as it is earned and expenses as they are incurred, except for depreciation expense, which is recorded using the straight-line method over the estimated useful lives of the assets.

Investments - Investments are carried at market 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 Pokagon Fund, Inc. has authorized Trust Company of Toledo to manage the investment activity of The Pokagon Fund, Inc. 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 balance sheet.

Property and Equipment - Property and equipment are stated at their estimated market value at the date donated or at cost, if purchased. The Fund follows the practice of capitalizing all expenditures for property and equipment in excess of \$500. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 39 years. 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 Pokagon Fund, Inc.

Notes to Financial Statements June 30, 2017 and 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

The Pokagon Fund, Inc. 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 one percent of net win and will remain at that level during each subsequent year of operation.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of revenue collected and expenses paid; accordingly, certain costs have been allocated among the program and support services benefited. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

Classification of Net Assets - Net assets of the Fund are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting the Fund's ability to use or dispose of contributed assets or the economic benefits embodied in those assets.

Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings, gains, and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or by applicable state law.

The Fund does not have temporarily or permanently restricted net assets at June 30, 2017 or 2016.

Income Tax Status - The Fund qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and is therefore not subject to federal and state income taxes.

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 October 9, 2017, which is the date the financial statements were available to be issued.

The Pokagon Fund, Inc.

Notes to Financial Statements June 30, 2017 and 2016

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

Upcoming Accounting Pronouncement - 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*, in August 2016. 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 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.

Note 2 - Investments

Investments consisted of the following at June 30:

| | 2017 | | 2016 | |
|------------------------------------|---------------------|---------------------|---------------------|---------------------|
| | Amortized Cost | Market | Amortized Cost | Market |
| U.S. government notes and bonds | \$ 1,011,906 | \$ 1,013,834 | \$ 50,176 | \$ 50,125 |
| Government agency securities | 349,487 | 346,839 | 199,975 | 200,045 |
| GNMA pools | 131,502 | 129,906 | 183,889 | 183,550 |
| Mortgage-backed pools | 263,085 | 257,471 | 356,928 | 357,647 |
| Corporate bonds | 1,494,495 | 1,549,683 | 1,837,970 | 1,943,269 |
| Money market | 939,310 | 939,310 | 765,027 | 765,027 |
| Common stocks | 1,345,118 | 1,641,302 | 1,564,503 | 1,702,356 |
| Real estate investment trust | 28,024 | 36,824 | 24,355 | 30,124 |
| International equity fund | 222,066 | 235,761 | 234,384 | 214,611 |
| U.S. equity fund | 271,646 | 252,119 | 253,708 | 209,642 |
| Equity fund - REIT | 61,005 | 55,536 | - | - |
| Total | <u>\$ 6,117,644</u> | <u>\$ 6,458,585</u> | <u>\$ 5,470,915</u> | <u>\$ 5,656,396</u> |

Investment income is comprised of the following at June 30:

| | 2017 | 2016 |
|-------------------------------------|-------------------|-------------------|
| Interest income | \$ 78,477 | \$ 96,715 |
| Dividend income | 72,885 | 87,026 |
| Realized and unrealized gain (loss) | 165,082 | (3,077) |
| Total | <u>\$ 316,444</u> | <u>\$ 180,664</u> |

The Pokagon Fund, Inc.

Notes to Financial Statements June 30, 2017 and 2016

Note 3 - Property and Equipment

The cost of property and equipment is summarized as follows:

| | <u>2017</u> | <u>2016</u> |
|-------------------------------|-------------------|-------------------|
| Land | \$ 36,500 | \$ 36,500 |
| Land improvements | 10,484 | 10,484 |
| Buildings | 563,231 | 563,231 |
| Furniture and fixtures | <u>51,274</u> | <u>51,274</u> |
| Total cost | 661,489 | 661,489 |
| Less accumulated depreciation | <u>(172,714)</u> | <u>(154,290)</u> |
| Net carrying amount | <u>\$ 488,775</u> | <u>\$ 507,199</u> |

Depreciation expense was \$18,424 for 2017 and \$18,845 for 2016.

Note 4 - 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
 - 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
 - 1 percent made to and for projects in the Village of Michiana
 - 1 percent made to and for projects in the Village of Grand Beach
 - 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 for which grant distributions are made in accordance with the above policy.

The Fund had approximately \$1,830,000 and \$620,000 in grant commitments outstanding at June 30, 2017 and 2016, respectively.

Note 5 - 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, 2017 and 2016 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 contractual cash flows, interest rate benchmark yields, 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.

The Pokagon Fund, Inc.

Notes to Financial Statements June 30, 2017 and 2016

Note 5 - Fair Value Measurements (Continued)

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 |
|------------------------------------|--|---|--|-----------------------------|
| Assets - 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 |
| Total assets | \$ 5,724,369 | \$ 734,216 | \$ - | \$ 6,458,585 |

Assets Measured at Fair Value on a Recurring Basis at June 30, 2016

| | 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, 2016 |
|------------------------------------|--|---|--|-----------------------------|
| Assets - Investments | | | | |
| U.S. government notes and bonds | \$ 50,125 | \$ - | \$ - | \$ 50,125 |
| Government agency securities | - | 200,045 | - | 200,045 |
| GNMA pools | - | 183,550 | - | 183,550 |
| Mortgage-backed pools | - | 357,647 | - | 357,647 |
| Corporate bonds | 1,943,269 | - | - | 1,943,269 |
| Money market | 765,027 | - | - | 765,027 |
| Common stock | 1,702,356 | - | - | 1,702,356 |
| Real estate investment trust | 30,124 | - | - | 30,124 |
| International equity fund | 214,611 | - | - | 214,611 |
| U.S. equity fund | 209,642 | - | - | 209,642 |
| Total assets | \$ 4,915,154 | \$ 741,242 | \$ - | \$ 5,656,396 |

The Pokagon Fund, Inc.

Notes to Financial Statements June 30, 2017 and 2016

Note 5 - Fair Value Measurements (Continued)

The fair value of government agency securities, GNMA pools, and mortgage-backed pools at June 30, 2017 and 2016 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.

Additional Information

Independent Auditor's Report on Additional Information

To the Board of Directors
The Pokagon Fund, Inc.

We have audited the financial statements of The Pokagon Fund, Inc. as of and for the years ended June 30, 2017 and 2016 and have issued our report thereon dated October 9, 2017, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses are presented for the purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with the modified cash basis of accounting. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

October 9, 2017

The Pokagon Fund, Inc.

Schedule of Functional Expenses - Modified Cash Basis Year Ended June 30, 2017

| | Program Services | Management and General | Total |
|--------------------------------|---------------------|---------------------------|---------------------|
| Expenses | | | |
| Grants: | | | |
| 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 |
| 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 | <u>\$ 1,468,041</u> | <u>\$ 51,393</u> | <u>\$ 1,519,434</u> |

The Pokagon Fund, Inc.

Schedule of Functional Expenses - Modified Cash Basis Year Ended June 30, 2016

| | Program Services | Management and General | Total |
|----------------------------------|---------------------|---------------------------|---------------------|
| Expenses | | | |
| Grants: | | | |
| Pokagon Band grants | \$ 133,988 | \$ - | \$ 133,988 |
| Municipal grants | 1,828,277 | - | 1,828,277 |
| Discretionary/Nonprofit grants | 219,884 | - | 219,884 |
| Scholarships | 71,692 | - | 71,692 |
| Repairs and maintenance | 7,483 | - | 7,483 |
| Utilities | 5,684 | 632 | 6,316 |
| Office supplies | 12,325 | 1,370 | 13,695 |
| Director's stipends | 9,720 | 1,080 | 10,800 |
| Salaries | 145,678 | 16,186 | 161,864 |
| Employee benefits | 2,651 | 295 | 2,946 |
| Payroll taxes | 11,966 | 1,330 | 13,296 |
| Pension expense | 4,001 | 445 | 4,446 |
| Technology expense | 3,328 | 370 | 3,698 |
| Professional fees | - | 11,436 | 11,436 |
| Insurance | 4,050 | 450 | 4,500 |
| Advertising | 19,505 | - | 19,505 |
| Dues and subscriptions | 2,686 | 298 | 2,984 |
| Travel | 4,262 | - | 4,262 |
| Education and seminars | 3,795 | - | 3,795 |
| Meals and entertainment | 2,460 | - | 2,460 |
| Investment fees | - | 36,169 | 36,169 |
| Bank service fees | - | 90 | 90 |
| Federal and foreign taxes paid | - | 2,938 | 2,938 |
| Depreciation | 16,960 | 1,885 | 18,845 |
| Total functional expenses | \$ 2,510,395 | \$ 74,974 | \$ 2,585,369 |