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# McGregor Fund

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**Financial Report**  
**June 30, 2021**

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## **Independent Auditor's Report**

To the Board of Trustees  
McGregor Fund

We have audited the accompanying financial statements of McGregor Fund (the "Fund"), which comprise the balance sheet as of June 30, 2021 and 2020 and the related statements of activities and changes in net assets 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 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 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.

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McGregor Fund as of June 30, 2021 and 2020 and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

As described in Note 2, the financial statements include certain investments whose fair values have been estimated by management in the absence of readily determinable fair values. Management's estimates are based on information provided by the fund managers or partnership general partners. These investments are valued at \$120,897,074 (52.5 percent of net assets) at June 30, 2021 and \$74,027,883 (44.0 percent of net assets) at June 30, 2020. Our opinion is not modified with respect to this matter.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

September 28, 2021

**Balance Sheet****June 30, 2021 and 2020**

	2021	2020
<b>Assets</b>		
Cash and cash equivalents	\$ 3,550,026	\$ 1,572,397
Accrued interest and dividends	45,429	79,276
Investments (Note 3)	229,288,296	169,251,110
Other assets:		
Prepaid expenses	175,171	130,232
Prepaid federal excise taxes	68,244	33,305
Other	134,365	127,736
Total assets	<b>\$ 233,261,531</b>	<b>\$ 171,194,056</b>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accrued expenses	\$ 278,821	\$ 157,451
Grants payable (Note 4)	1,115,085	1,696,308
Deferred excise taxes (Note 5)	1,297,135	857,713
Other liabilities	134,369	127,740
Total liabilities	2,825,410	2,839,212
<b>Net Assets</b> - Without donor restrictions	230,436,121	168,354,844
Total liabilities and net assets	<b>\$ 233,261,531</b>	<b>\$ 171,194,056</b>

**Statement of Activities and Changes in Net Assets****Years Ended June 30, 2021 and 2020**

	2021	2020
<b>Changes in Net Assets without Donor Restrictions</b>		
Net investment return (Note 3)	\$ 73,101,474	\$ 4,699,152
Expenses:		
Program services:		
Grants	8,803,514	7,329,796
Other program expenses	752,688	733,631
Total program services	9,556,202	8,063,427
Support services:		
Management and general	807,485	835,891
Federal and state tax on unrelated business income from investments	52,027	126,758
Federal excise tax expense (Note 5)	604,483	48,181
Total support services	1,463,995	1,010,830
Total expenses	11,020,197	9,074,257
<b>Increase (Decrease) in Net Assets without Donor Restrictions</b>	62,081,277	(4,375,105)
<b>Net Assets - Beginning of year</b>	168,354,844	172,729,949
<b>Net Assets - End of year</b>	<b>\$ 230,436,121</b>	<b>\$ 168,354,844</b>

## Statement of Cash Flows

**Years Ended June 30, 2021 and 2020**

	2021	2020
<b>Cash Flows from Operating Activities</b>		
Increase (decrease) in net assets	\$ 62,081,277	\$ (4,375,105)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents from operating activities:		
Net realized and unrealized gains on securities	(72,409,419)	(5,794,847)
Changes in operating assets and liabilities that provided (used) cash and cash equivalents:		
Accrued interest and dividends	33,847	23,954
Prepaid expenses	(44,939)	(71,386)
Prepaid federal excise taxes	(34,939)	(33,305)
Accrued expenses	121,370	31,020
Deferred federal excise taxes	439,422	(44,524)
Federal excise taxes payable	-	(101,611)
Grants payable	(581,223)	(478,672)
Net cash and cash equivalents used in operating activities	(10,394,604)	(10,844,476)
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(41,622,983)	(56,232,307)
Proceeds from sales and maturities of investments	53,995,216	66,982,163
Net cash and cash equivalents provided by investing activities	12,372,233	10,749,856
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	1,977,629	(94,620)
<b>Cash and Cash Equivalents - Beginning of year</b>	1,572,397	1,667,017
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 3,550,026</b>	<b>\$ 1,572,397</b>

**June 30, 2021 and 2020****Note 1 - Nature of Business**

McGregor Fund (the "Fund"), located in Detroit, Michigan and established in 1925, is a private foundation that was organized to relieve misfortune and promote the well-being of humankind. The primary activity of the Fund is to provide support to Detroit metropolitan area not-for-profit organizations that operate in three program areas that are of particular interest to the Fund's board of trustees: basic needs, recovery and restoration, and skill building.

**Note 2 - Significant Accounting Policies*****Cash Equivalents***

The Fund considers all highly liquid investments with original maturities of three months or less when purchased to be cash equivalents.

***Concentration of Credit Risk Arising from Deposit Accounts***

The Fund maintains cash balances at a bank whose accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000. The Fund evaluates the financial institutions with which it deposits funds; however, it is not practical to insure all cash deposits.

***Investments***

Investments in government and corporate debt and equity securities are stated at current quoted market values. The alternative investments, primarily composed of real estate, private equities, hedge funds, oil and gas, and other limited partnerships, which are not readily marketable, are carried at estimated fair values, as provided by the various investment managers. The Fund reviews and evaluates the values provided by the investment managers and agrees with the valuation methods used and significant assumptions used in determining fair value. Those estimated fair values may differ significantly from the values that would have been used had a ready market for these securities existed. Purchases and sales of investments are recorded as of the trade date. Gain or loss on the sale of investments is computed using the first-in, first-out method.

***Classification of Net Assets***

Net assets of the Fund are classified based on the presence or absence of donor-imposed restrictions. All net assets of the Fund are without donor restrictions.

***Functional Allocation of Expenses***

Costs of providing the program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Costs have been allocated between program and support services based on estimates determined by management. Salaries and benefits are allocated on the basis of the actual employee time and effort devoted to these activities. Other expenses are allocated on the basis of the program or support service that used the related asset or service. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

***Tax Status***

The Fund is exempt from federal income taxes under Section 501(c)(3) of the United States Internal Revenue Code. As a private foundation, the Fund is subject to an excise tax on net investment income, including realized gains, as defined in the Tax Reform Act of 1969.

**June 30, 2021 and 2020**

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

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles 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, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

***Fair Value Disclosures***

The estimated fair value amounts have been determined by the Fund using available market information and appropriate valuation methodologies. These estimates are subjective in nature and involve uncertainties and matters of considerable judgment. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Fund could realize in a current market exchange. The use of different assumptions, judgments, and/or estimation methodologies may have a material effect on the estimated fair value amounts. All investment securities are carried at fair value in the financial statements.

***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 financial statements.

Certain impacts from the COVID-19 outbreak may have a significant negative impact on the Fund's operations and changes in net assets. These circumstances may continue for an extended period of time and may have an adverse impact on economic and market conditions. The ultimate economic fallout from the pandemic and the long-term impact on the economy, markets, industries, and individual companies are not known. The extent of the impact to the financial performance and changes in net assets of the Fund will depend on future developments, which are highly uncertain and cannot be predicted.

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including September 28, 2021, which is the date the financial statements were available to be issued.



# Notes to Financial Statements

June 30, 2021 and 2020

## Note 3 - Investments

Investments consisted of the following at June 30:

	2021		2020	
	Cost	Fair Value	Cost	Fair Value
Fixed-income and equity securities:				
Domestic fixed-income securities	\$ 10,545,691	\$ 10,837,542	\$ 12,773,215	\$ 13,862,814
U.S. equity securities	11,704,260	46,961,455	12,362,510	34,711,340
Foreign equity securities	35,199,604	50,592,225	41,425,928	46,649,073
Total fixed-income and equity securities	57,449,555	108,391,222	66,561,653	95,223,227
Alternative investments:				
Hedge funds and multistrategy	38,763,071	50,352,963	26,084,126	31,615,571
Oil and gas limited partnerships	6,052,196	4,620,002	6,007,709	2,757,889
Private equity and venture capital limited partnerships	27,606,574	64,563,910	25,931,873	36,981,039
Real estate limited partnerships	605,362	1,360,199	1,780,122	2,673,384
Total alternative investments	73,027,203	120,897,074	59,803,830	74,027,883
Total	\$ 130,476,758	\$ 229,288,296	\$ 126,365,483	\$ 169,251,110

Net investment return is composed of the following for the years ended June 30:

	2021	2020
Interest	\$ 287,405	\$ 410,783
Dividends	889,942	923,749
Net realized and unrealized gains on securities	72,409,419	5,794,847
Other partnership gains (losses)	75,690	(1,712,461)
Investment advisory and custodial fees	(560,982)	(717,766)
Total	\$ 73,101,474	\$ 4,699,152

## Note 4 - Grants Payable

Unconditional grants are recognized as an expense at the time of formal approval by the full board of trustees. A present value discount for grants to be paid beyond one year has been calculated using a rate of approximately 0.05 and 0.16 percent at June 30, 2021 and 2020, respectively, based on when the grant was approved. At June 30, 2021 and 2020, the total discount on grants payable was \$1,515 and \$5,042, respectively.

The following summarizes the changes in grants payable for the years ended June 30, 2021 and 2020:

	2021	2020
Grants payable - Beginning of year	\$ 1,696,308	\$ 2,174,980
Grants approved	8,919,987	7,296,888
Payments made	(9,504,737)	(7,818,868)
Change in discount on grants payable	3,527	43,308
Grants payable - End of year	\$ 1,115,085	\$ 1,696,308

## Notes to Financial Statements

**June 30, 2021 and 2020**

### Note 4 - Grants Payable (Continued)

	2021	2020
Amounts due in:		
Less than one year	\$ 866,600	\$ 1,436,350
One to five years	250,000	265,000
Less discount	(1,515)	(5,042)
Total	<u>\$ 1,115,085</u>	<u>\$ 1,696,308</u>

Conditional grants are expensed when the barriers prescribed by the grant agreements are overcome and the condition or conditions on which they depend are considered to be substantially met. Conditional grants approved for future payment were \$3,900,000 and \$4,650,000 at June 30, 2021 and 2020, respectively. Included in these amounts is a \$6 million conditional 20-year grant to the Foundation for Detroit's Future (FDF), a supporting organization of the Community Foundation for Southeast Michigan, which was approved by the Fund on August 19, 2014. The grant and payment of the annual grant installments are conditioned upon the terms and conditions outlined in the Fund's agreement with FDF. The Fund made payments on this grant totaling \$550,000 and \$0 during the years ended June 30, 2021 and 2020, respectively.

### Note 5 - Excise Taxes

The Fund's excise tax expense as of June 30, 2021 and 2020 is composed of the following:

	2021	2020
Current	\$ 165,061	\$ 92,705
Deferred	439,422	(44,524)
Total excise tax expense	<u>\$ 604,483</u>	<u>\$ 48,181</u>

The deferred excise tax liability on the balance sheet represents the tax on unrealized gains on investment securities.

### Note 6 - Deferred Compensation Plan

The Fund sponsors a defined contribution 401(k) plan for all eligible full-time employees, as defined in the plan document. The plan became effective as of January 1, 2008. The Fund contributes a specified percentage of the annual eligible compensation of participants. Total contributions to the plan for the years ended June 30, 2021 and 2020 amounted to approximately \$110,200 and \$105,500, respectively.

### Note 7 - 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, 2021 and 2020 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.

# Notes to Financial Statements

June 30, 2021 and 2020

## Note 7 - Fair Value Measurements (Continued)

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.

In instances where 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, 2021				
	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, 2021
<b>Assets</b>				
Investments:				
U.S. government securities	\$ -	\$ 1,435,179	\$ -	\$ 1,435,179
Domestic municipal bonds	-	1,460,630	-	1,460,630
Domestic corporate bonds	-	2,717,924	-	2,717,924
Domestic fixed-income mutual funds	5,223,809	-	-	5,223,809
Foreign equity mutual funds	16,099,312	-	-	16,099,312
Cash equivalents - Money market mutual funds	3,338,401	-	-	3,338,401
Total	<u>\$ 24,661,522</u>	<u>\$ 5,613,733</u>	<u>\$ -</u>	<u>30,275,255</u>
Investments measured at NAV:				
U.S. equity commingled funds				46,961,455
Foreign equity commingled funds				34,492,913
Hedge fund and multistrategy				50,352,963
Oil and gas partnership				4,620,002
Private equity and venture capital limited partnerships				64,563,910
Real estate limited partnerships				<u>1,360,199</u>
Total investments measured at NAV				<u>202,351,442</u>
Total assets				<u>\$ 232,626,697</u>

# Notes to Financial Statements

June 30, 2021 and 2020

## Note 7 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at June 30, 2020				
	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, 2020
<b>Assets</b>				
Investments:				
Domestic fixed-income mutual funds	\$ 1,509,704	\$ -	\$ -	\$ 1,509,704
U.S. government securities	-	3,958,950	-	3,958,950
Domestic municipal bonds	-	2,758,044	-	2,758,044
Domestic corporate bonds	-	5,636,116	-	5,636,116
Foreign equity mutual funds	21,140,524	-	-	21,140,524
Cash equivalents - Money market mutual funds	1,142,357	-	-	1,142,357
Total	<u>\$ 23,792,585</u>	<u>\$ 12,353,110</u>	<u>\$ -</u>	<u>36,145,695</u>
Investments measured at NAV:				
U.S. equity commingled funds				34,711,340
Foreign equity commingled funds				25,508,549
Hedge fund and multistrategy				31,615,571
Oil and gas partnership				2,757,889
Private equity and venture capital limited partnerships				36,981,039
Real estate limited partnerships				<u>2,673,384</u>
Total investments measured at NAV				<u>134,247,772</u>
Total assets				<u>\$ 170,393,467</u>

The tables above include money market mutual funds of \$3,338,401 and \$1,142,357 at June 30, 2021 and 2020, respectively, which are included within cash equivalents on the balance sheet.

The fair value of U.S. government securities, domestic municipal bonds, and domestic corporate bonds is determined using quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices, discounted cash flow models, and other pricing models. These models are primarily industry-standard models that consider various assumptions, including time value and yield curve, as well as other relevant economic measures.

### **Investments in Entities that Calculate Net Asset Value per Share**

The Fund holds shares or interests in investment companies whereby the fair value of the investments is measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

# Notes to Financial Statements

June 30, 2021 and 2020

## Note 7 - Fair Value Measurements (Continued)

At year end, the fair value, unfunded commitments, and redemption rules of those investments are as follows:

	June 30, 2021	June 30, 2020		June 30, 2021	
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
U.S. equity commingled funds (a)	\$ 46,961,455	\$ 34,711,340	\$ -	Quarterly, annually	1-60 days
Foreign equity commingled funds (b)	34,492,913	25,508,549	-	Weekly, monthly	10-60 days
Hedge fund and multistrategy (c)	50,352,963	31,615,571	-	Monthly, quarterly, and annually	30-90 days
Oil and gas limited partnerships (d)	4,620,002	2,757,889	1,862,911	N/A	N/A
Private equity and venture capital limited partnerships (e)	64,563,910	36,981,039	24,640,240	N/A	N/A
Real estate limited partnerships (f)	1,360,199	2,673,384	603,906	N/A	N/A
Total	<u>\$202,351,442</u>	<u>\$134,247,772</u>	<u>\$ 27,107,057</u>		

(a) The U.S. equity securities category includes investments in commingled U.S. stock funds. The fair value of the investments in this category has been estimated using the net asset value of the Fund's ownership interest in partners' capital or net asset value per share of the investments, whichever is applicable. A portion of the investments in this category, totaling \$8,667,629 and \$0 at June 30, 2021 and 2020, respectively, is considered illiquid.

(b) The foreign equity securities category includes investments in commingled international stock funds. The fair value of the investments in this category has been estimated using net asset value of the Fund's ownership interest in partners' capital or net asset value per share of the investments, whichever is applicable.

(c) The hedge funds and multistrategy category includes direct investments in hedge funds that invest in event arbitrage, multistrategy, distressed securities, U.S. long/short equities, and global long/short equities. The fair value of the investments in this category has been estimated using net asset value per share of the investments. A portion of the investments in this category, totaling \$8,541,499 and \$0 at June 30, 2021 and 2020, respectively, is considered illiquid.

(d) The oil and gas limited partnerships category includes investments with energy managers that invest across the energy industry. The fair value of the investments in this category has been estimated using net asset value of the Fund's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received only as the underlying investments of the funds are liquidated. It is estimated that the underlying investments of these funds will be liquidated over the next 3 to 12 years.

(e) The private equity and venture capital limited partnerships category includes investments with fund of funds; managers that invest in Asian, European, U.S., and U.S. distressed private equity funds; and early stage U.S. venture capital funds. The fair value of the investments in this category has been estimated using net asset value of the Fund's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received only as the underlying investments of the funds are liquidated. It is estimated that the underlying investments of these funds will be liquidated over the next 5 to 12 years.

(f) The real estate limited partnerships category includes investments with real estate managers that invest in European and U.S. commercial and residential real estate. The fair value of the investments in this category has been estimated using net asset value of the Fund's ownership interest in partners' capital. These investments can never be redeemed with the funds. Distributions from each fund will be received only as the underlying investments of the funds are liquidated. It is estimated that the underlying investments of these funds will be liquidated over the next 1 to 6 years.

## Notes to Financial Statements

**June 30, 2021 and 2020**

### Note 8 - Functional Expenses

Expenses are functionally allocated as follows for the year ended June 30, 2021:

	Program Services	Support Services	Total
Grants	\$ 8,803,514	\$ -	\$ 8,803,514
Salaries and benefits	619,552	507,861	1,127,413
Legal, accounting, and professional fees	105,000	114,440	219,440
Occupancy	21,577	75,281	96,858
Taxes	-	656,531	656,531
Other expenses	6,559	109,882	116,441
Total	<u>\$ 9,556,202</u>	<u>\$ 1,463,995</u>	<u>\$ 11,020,197</u>

Expenses are functionally allocated as follows for the year ended June 30, 2020:

	Program Services	Support Services	Total
Grants	\$ 7,329,796	\$ -	\$ 7,329,796
Salaries and benefits	611,227	475,700	1,086,927
Legal, accounting, and professional fees	63,750	135,359	199,109
Occupancy	21,080	91,336	112,416
Taxes	-	175,329	175,329
Other expenses	37,574	133,106	170,680
Total	<u>\$ 8,063,427</u>	<u>\$ 1,010,830</u>	<u>\$ 9,074,257</u>

### Note 9 - Liquidity and Availability of Resources

The following reflects the Fund's financial assets as of June 30, 2021 and 2020, reduced by amounts not available for general use because of contractual restrictions within one year of the balance sheet date:

	2021	2020
Cash and cash equivalents	\$ 3,550,026	\$ 1,572,397
Investments	229,288,296	169,251,110
Accrued interest and dividends	45,429	79,276
Financial assets - At year end	232,883,751	170,902,783
Less those unavailable for general expenditures within one year due to investment redemption restrictions	<u>87,753,239</u>	<u>42,412,312</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 145,130,512</u>	<u>\$ 128,490,471</u>

The Fund has a goal to maintain financial assets, which consist of cash and short-term investments, and receivables on hand to meet normal operating expenses. None of the financial assets are subject to donor or other restrictions that make them unavailable for general expenditures within one year of the balance sheet date. The Fund has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Fund also realizes there could be unanticipated liquidity needs.