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# McGregor Fund

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**Financial Report  
with Additional Information  
June 30, 2018**

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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, 2018 and 2017 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 opinions.

### ***Opinions***

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, 2018 and 2017 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 \$78,431,659 (45.2 percent of net assets) at June 30, 2018 and \$76,219,841 (45.3 percent of net assets) at June 30, 2017. Our opinion is not modified with respect to this matter.

*Plante & Moran, PLLC*

September 4, 2018

## McGregor Fund

## Balance Sheet

June 30, 2018 and 2017

	2018	2017
<b>Assets</b>		
Cash and cash equivalents	\$ 3,879,065	\$ 4,748,568
Investments (Note 3)	173,870,231	166,590,684
Accrued interest and dividends	100,168	65,050
Other assets:		
Prepaid expenses	137,216	40,330
Prepaid federal excise taxes	13,552	100,578
Other	248,558	306,841
	<u>\$ 178,248,790</u>	<u>\$ 171,852,051</u>
<b>Liabilities and Net Assets</b>		
<b>Liabilities</b>		
Accrued expenses	\$ 87,403	\$ 68,820
Grants payable (Note 4)	3,387,998	2,234,415
Deferred excise taxes (Note 5)	972,830	892,135
Other liabilities	248,481	306,764
	<u>4,696,712</u>	<u>3,502,134</u>
Total liabilities	4,696,712	3,502,134
<b>Net Assets - Unrestricted</b>	<u>173,552,078</u>	<u>168,349,917</u>
	<u>\$ 178,248,790</u>	<u>\$ 171,852,051</u>
Total liabilities and net assets	<u>\$ 178,248,790</u>	<u>\$ 171,852,051</u>

**Statement of Activities and Changes in Net Assets****Years Ended June 30, 2018 and 2017**

	<u>2018</u>	<u>2017</u>
<b>Changes in Unrestricted Net Assets</b>		
Revenue, gains (losses), and other support:		
Interest	\$ 360,940	\$ 246,257
Dividends	1,343,792	1,003,089
Other partnership losses	(609,202)	(3,631,332)
Net realized and unrealized gains on securities	15,385,385	21,929,032
Investment advisory fees and consulting services	<u>(698,305)</u>	<u>(647,295)</u>
Total revenue, gains (losses), and other support	15,782,610	18,899,751
Expenses:		
Program services - Grants and related activities	8,903,953	8,435,396
Support services:		
Management and general	1,364,430	1,355,005
Federal excise tax expense (Note 5)	167,721	310,823
Federal and state tax on unrelated business income from investments	<u>144,345</u>	<u>125,093</u>
Total expenses	<u>10,580,449</u>	<u>10,226,317</u>
<b>Increase in Net Assets</b>	5,202,161	8,673,434
<b>Net Assets - Beginning of year</b>	<u>168,349,917</u>	<u>159,676,483</u>
<b>Net Assets - End of year</b>	<u><u>\$ 173,552,078</u></u>	<u><u>\$ 168,349,917</u></u>

**Statement of Cash Flows**

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

	2018	2017
<b>Cash Flows from Operating Activities</b>		
Increase in net assets	\$ 5,202,161	\$ 8,673,434
Adjustments to reconcile increase in net assets to net cash and cash equivalents from operating activities:		
Net realized and unrealized gains on securities	(15,385,385)	(21,929,032)
Changes in operating assets and liabilities which (used) provided cash and cash equivalents:		
Accrued interest and dividends	(35,118)	(8,545)
Prepaid expenses	(96,886)	(2,293)
Prepaid federal excise taxes	87,026	(71,074)
Accrued expenses	18,583	12,575
Deferred federal excise taxes	80,695	306,897
Grants payable	1,153,583	650,441
Net cash used in operating activities	(8,975,341)	(12,367,597)
<b>Cash Flows from Investing Activities</b>		
Purchases of investments	(23,094,607)	(32,906,861)
Proceeds from sales and maturities of investments	31,200,445	47,737,840
Net cash provided by investing activities	8,105,838	14,830,979
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	(869,503)	2,463,382
<b>Cash and Cash Equivalents - Beginning of year</b>	4,748,568	2,285,186
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 3,879,065</b>	<b>\$ 4,748,568</b>

June 30, 2018 and 2017

## 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, which 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 purchased with original maturities of three months or less 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 unrestricted.

### *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. 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.

### *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.

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

***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 participants' account balances and the amounts reported in the financial statements.

***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 the 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 organization, 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. Upon implementation, the Fund will report expense classifications to include both functional and natural classes and will also include the required liquidity and availability financial resources disclosures.

***Subsequent Events***

The financial statements and related disclosures include evaluation of events up through and including September 4, 2018, which is the date the financial statements were available to be issued.



June 30, 2018 and 2017

**Note 3 - Investments**

Investments consisted of the following at June 30:

	2018		2017	
	Cost	Fair Value	Cost	Fair Value
Fixed-income and equity securities:				
Domestic fixed-income securities	\$ 13,684,773	\$ 13,326,780	\$ 8,772,585	\$ 8,749,219
International fixed-income securities	5,509,068	5,929,578	5,331,404	5,891,337
U.S. equity securities	19,632,483	37,351,181	23,405,514	37,583,368
Foreign equity securities	31,275,529	38,831,033	30,783,021	38,146,919
Total fixed-income and equity securities	70,101,853	95,438,572	68,292,524	90,370,843
Alternative investments:				
Hedge funds and multistrategy	21,869,524	30,338,980	20,600,985	31,140,378
Oil and gas limited partnerships	7,612,675	9,729,327	8,312,249	8,096,313
Private equity and venture capital limited partnerships	19,592,355	29,521,193	18,396,525	27,252,965
Real estate limited partnerships	3,716,888	5,227,042	3,965,835	6,072,791
Commodities and natural resources limited partnerships	2,335,418	3,615,117	2,415,801	3,657,394
Total alternative investments	55,126,860	78,431,659	53,691,395	76,219,841
Total	\$ 125,228,713	\$ 173,870,231	\$ 121,983,919	\$ 166,590,684

**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 1.89 and 1.01 percent at June 30, 2018 and 2017, respectively, based on when the grant was approved. At June 30, 2018 and 2017, the total discount on grants payable was \$74,402 and \$18,230, respectively.

The following summarizes the changes in grants payable for the years ended June 30, 2018 and 2017:

	2018	2017
Grants payable - Beginning of year	\$ 2,234,415	\$ 1,583,974
Grants approved	8,685,375	8,462,355
Payments made	(7,475,620)	(7,799,467)
Change in discount on grants payable	(56,172)	(12,447)
Grants payable - End of year	\$ 3,387,998	\$ 2,234,415

June 30, 2018 and 2017

**Note 4 - Grants Payable (Continued)**

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 2,687,400	\$ 2,087,645
One to five years	775,000	165,000
Less discount	<u>(74,402)</u>	<u>(18,230)</u>
Total	<u>\$ 3,387,998</u>	<u>\$ 2,234,415</u>

Conditional grants are expensed when such conditions are substantially met. Conditional grants approved for future payment were \$6,630,000 and \$5,215,000 at June 30, 2018 and 2017, 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 \$300,000 and \$0 during the years ended June 30, 2018 and 2017, respectively.

**Note 5 - Excise Taxes**

The Fund's excise tax expense as of June 30, 2018 and 2017 is composed of the following:

	<u>2018</u>	<u>2017</u>
Current	\$ 87,026	\$ 3,926
Deferred	<u>80,695</u>	<u>306,897</u>
Total excise tax expense	<u>\$ 167,721</u>	<u>\$ 310,823</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, 2018 and 2017 amounted to approximately \$114,900 and \$87,900, 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, 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.

June 30, 2018 and 2017

**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 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 Fund's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the end of the reporting period. There were no transfers between levels of the fair value hierarchy during the years ended June 30, 2018 and 2017.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2018

	Quoted Prices in			Net Asset Value	Balance at June 30, 2018
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
<b>Assets</b>					
Cash equivalents - Money market mutual funds	\$ 3,346,468	\$ -	\$ -	\$ -	\$ 3,346,468
Investments:					
U.S. government securities	-	4,951,852	-	-	4,951,852
Domestic municipal bonds	-	3,039,339	-	-	3,039,339
Domestic corporate bonds	-	5,335,589	-	-	5,335,589
International fixed-income securities limited partnership	-	-	-	5,929,578	5,929,578
U.S. equity mutual funds	13,958,717	-	-	-	13,958,717
U.S. equity commingled funds	-	-	-	23,392,464	23,392,464
Foreign equity mutual funds	16,680,946	-	-	-	16,680,946
Foreign equity commingled funds	-	-	-	22,150,087	22,150,087
Hedge fund and multistrategy	-	-	-	30,338,980	30,338,980
Oil and gas partnership	-	-	-	9,729,327	9,729,327
Private equity and venture capital limited partnerships	-	-	-	29,521,193	29,521,193
Real estate limited partnerships	-	-	-	5,227,042	5,227,042
Commodities and natural resources limited partnerships	-	-	-	3,615,117	3,615,117
Total investments	30,639,663	13,326,780	-	129,903,788	173,870,231
Total assets	\$ 33,986,131	\$ 13,326,780	\$ -	\$ 129,903,788	\$ 177,216,699

June 30, 2018 and 2017

Note 7 - 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)	Net Asset Value	Balance at June 30, 2017
<b>Assets</b>					
Cash equivalents - Money market mutual funds	\$ 4,584,115	\$ -	\$ -	\$ -	\$ 4,584,115
Investments:					
U.S. government securities	-	2,233,593	-	-	2,233,593
Domestic municipal bonds	-	2,585,203	-	-	2,585,203
Domestic corporate bonds	-	3,930,423	-	-	3,930,423
International fixed-income securities limited partnership	-	-	-	5,891,337	5,891,337
U.S. equity mutual funds	16,318,700	-	-	-	16,318,700
U.S. equity commingled funds	-	-	-	21,264,668	21,264,668
Foreign equity mutual funds	15,193,972	-	-	-	15,193,972
Foreign equity commingled funds	-	-	-	22,952,947	22,952,947
Hedge fund and multistrategy	-	-	-	31,140,378	31,140,378
Oil and gas limited partnerships	-	-	-	8,096,313	8,096,313
Private equity and venture capital limited partnerships	-	-	-	27,252,965	27,252,965
Real estate limited partnerships	-	-	-	6,072,791	6,072,791
Commodities and natural resources limited partnerships	-	-	-	3,657,394	3,657,394
Total investments	31,512,672	8,749,219	-	126,328,793	166,590,684
Total assets	\$ 36,096,787	\$ 8,749,219	\$ -	\$ 126,328,793	\$ 171,174,799

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.

June 30, 2018 and 2017

**Note 7 - Fair Value Measurements (Continued)**

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

The Fund holds shares or interests in investment companies where 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.

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

	June 30, 2018	June 30, 2017		June 30, 2018	
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
International fixed-income securities limited partnership (a)	\$ 5,929,578	\$ 5,891,337	\$ -	Monthly	10 days
U.S. equity commingled funds (b)	23,392,464	21,264,668	-	Daily and quarterly	1-60 days
Foreign equity commingled funds (c)	22,150,087	22,952,947	-	Monthly	10-60 days
				20 percent locked through 2018; remainder, monthly, quarterly, and	
Hedge fund and multistrategy (d)	30,338,980	31,140,378	-	annually	30-90 days
Oil and gas limited partnerships (e)	9,729,327	8,096,313	2,169,555	N/A	N/A
Private equity and venture capital limited partnerships (f)	29,521,193	27,252,965	21,819,675	N/A	N/A
Real estate limited partnerships (g)	5,227,042	6,072,791	1,545,791	N/A	N/A
Commodities and natural resources limited partnerships (h)	3,615,117	3,657,394	-	N/A	N/A
Total	<u>\$ 129,903,788</u>	<u>\$ 126,328,793</u>	<u>\$ 25,535,021</u>		

(a) The international fixed-income securities category includes an investment in a commingled bond fund that invests in foreign sovereign bonds. The fair value of the investment in this category has been estimated using the net asset value of the Fund's ownership interest in partners' capital.

(b) 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 the net asset value per share of the investments, whichever is applicable.

(c) 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 the net asset value of the Fund's ownership interest in partners' capital or the net asset value per share of the investments, whichever is applicable.

(d) 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 the net asset value per share of the investments.

**Note 7 - Fair Value Measurements (Continued)**

(e) 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 the 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.

(f) 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 the 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.

(g) 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 the 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 one to six years.

(h) The commodities and natural resources category includes an investment with a timber manager that invests in U.S. timberland. The fair value of the investment in this category has been estimated using the net asset value of the Fund's ownership interest in partners' capital. This investment was sold on July 13, 2018. Proceeds of \$3,615,117 were received.

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## Additional Information

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### Independent Auditor's Report on Additional Information

To the Board of Trustees  
McGregor Fund

We have audited the financial statements of McGregor Fund as of and for the years ended June 30, 2018 and 2017 and have issued our report thereon dated September 4, 2018, which contained an unmodified opinion on those financial statements.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of details of support activities is presented for the purpose of additional analysis and is 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 auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Plante & Moran, PLLC*

September 4, 2018



**Schedule of Details of Support Activities**

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

	<u>2018</u>	<u>2017</u>
<b>Management and General Expenses</b>		
Salaries and benefits	\$ 988,059	\$ 965,510
Legal, accounting, and professional fees	65,059	124,792
Other administrative expenses	<u>311,312</u>	<u>264,703</u>
Total management and general expenses	<u><b>\$ 1,364,430</b></u>	<u><b>\$ 1,355,005</b></u>