

McGregor Fund

**Financial Report
with Additional Information
June 30, 2008**

McGregor Fund

Contents

Report Letter	1
Financial Statements	
Balance Sheet	2
Statement of Activities and Changes in Net Assets	3
Statement of Cash Flows	4
Notes to Financial Statements	5-10
Additional Information	11
Report Letter	12
Details of Support Activities	13

Independent Auditor's Report

To the Board of Trustees
McGregor Fund

We have audited the accompanying balance sheet of McGregor Fund (the "Fund") as of June 30, 2008 and 2007 and the related statements of activities and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Fund's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of McGregor Fund at June 30, 2008 and 2007 and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As explained in Note 1, 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 \$61,546,910 (33.5 percent of net assets) at June 30, 2008 and \$54,909,863 (28.5 percent of net assets) at June 30, 2007.

Plante & Morse, PLLC

August 15, 2008

McGregor Fund

Balance Sheet

	<u>June 30, 2008</u>	<u>June 30, 2007</u>
Assets		
Cash and cash equivalents	\$ 1,782,598	\$ 2,800,326
Investments (Note 2)	185,083,417	193,907,362
Accrued interest and dividends	21,065	29,470
Other assets:		
Prepaid expenses	18,232	10,300
Prepaid federal excise taxes	<u>44,362</u>	<u>107,486</u>
Total assets	<u>\$ 186,949,674</u>	<u>\$ 196,854,944</u>
Liabilities and Net Assets		
Liabilities		
Accrued expenses	\$ 155,408	\$ 91,285
Grants payable (Note 3)	2,769,307	3,227,966
Deferred excise taxes (Note 4)	374,951	527,105
Accrued pension liability	<u>-</u>	<u>367,999</u>
Total liabilities	3,299,666	4,214,355
Net Assets - Unrestricted	<u>183,650,008</u>	<u>192,640,589</u>
Total liabilities and net assets	<u>\$ 186,949,674</u>	<u>\$ 196,854,944</u>

McGregor Fund

Statement of Activities and Changes in Net Assets

	Year Ended	
	June 30, 2008	June 30, 2007
Revenue, Gains, and Other Support		
Interest	\$ 1,371,867	\$ 1,127,324
Dividends	1,438,680	1,339,885
Net realized and unrealized (losses) gains on securities	(1,551,438)	26,469,214
Investment advisory fees and consulting services	<u>(637,034)</u>	<u>(588,058)</u>
Total revenue, gains, and other support	622,075	28,348,365
Expenses		
Program services - Grants and related activities	8,873,131	8,146,396
Support services:		
Management and general	941,068	893,003
Federal excise tax (Note 4)	<u>(89,029)</u>	<u>285,394</u>
Total expenses	<u>9,725,170</u>	<u>9,324,793</u>
(Decrease) Increase in Unrestricted Net Assets - Before other changes to net assets	(9,103,095)	19,023,572
Net Gain on Curtailment and Settlement of Pension Plan (Note 6)	112,514	-
Effect of Adoption, Recognition, and Measurement Date Provisions of FASB Statement No. 158	<u>-</u>	<u>(167,727)</u>
(Decrease) Increase in Net Assets	(8,990,581)	18,855,845
Net Assets - Beginning of year	<u>192,640,589</u>	<u>173,784,744</u>
Net Assets - End of year	<u>\$ 183,650,008</u>	<u>\$ 192,640,589</u>

McGregor Fund

Statement of Cash Flows

	Year Ended	
	June 30, 2008	June 30, 2007
Cash Flows from Operating Activities		
(Decrease) increase in net assets	\$ (8,990,581)	\$ 18,855,845
Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities:		
Net realized and unrealized loss (gains) on securities	1,551,438	(26,469,214)
Deferred federal excise tax	(152,154)	(1,675)
Changes in operating assets and liabilities which provided (used) cash:		
Accrued interest and dividends	8,405	366,936
Prepaid expenses	(7,932)	38,754
Prepaid federal excise tax	63,124	(14,307)
Accrued expenses	64,123	12,402
Grants payable	(458,659)	(854,391)
Accrued pension liability	<u>(367,999)</u>	<u>274,537</u>
Net cash used in operating activities	(8,290,235)	(7,791,113)
Cash Flows from Investing Activities		
Purchases of investments	(117,569,579)	(75,259,345)
Proceeds from sales and maturities of investments	<u>124,842,086</u>	<u>85,312,501</u>
Net cash provided by investing activities	<u>7,272,507</u>	<u>10,053,156</u>
Net (Decrease) Increase in Cash and Cash Equivalents	(1,017,728)	2,262,043
Cash and Cash Equivalents - Beginning of year	<u>2,800,326</u>	<u>538,283</u>
Cash and Cash Equivalents - End of year	<u>\$ 1,782,598</u>	<u>\$ 2,800,326</u>
Supplemental Disclosure of Cash Flow Information -		
Cash paid for		
Taxes	\$ -	\$ 300,000
Grants and matching gifts	9,376,412	9,000,787

Note 1 - Nature of Business and Significant Accounting Policies

McGregor Fund (the "Fund"), located in Detroit, Michigan and established in 1925, is a private foundation which 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 five program areas that are of particular interest to the Fund's board of trustees: human service, education, health care, arts and culture, and public benefit.

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

Investments - Investments in government and corporate debt and equity securities are stated at current quoted market values. The alternative investments, comprised primarily 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. In addition, the Fund participates in a secured lending arrangement whereby certain securities owned are on loan and the fund receives income. The total amount of securities on loan at June 30, 2008 is immaterial. 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.

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 accounting principles generally accepted in the United States of America 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 1 - Nature of Business and 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.

New Accounting Pronouncement - In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 defines fair value and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but provides guidance on how to measure fair value by providing a fair value hierarchy used to classify the source of the information. The provisions of SFAS 157 are effective for the Fund's June 30, 2009 fiscal year. The Fund is currently evaluating the impact, if any, of the provisions of SFAS 157 on its financial statements.

Note 2 - Investments

Investments consisted of the following at June 30:

	2008		2007	
	Cost	Fair Value	Cost	Fair Value
Marketable securities:				
Domestic fixed income securities	\$ 23,659,371	\$ 24,586,509	\$ 22,417,295	\$ 22,210,682
International fixed income securities	8,889,867	10,060,981	8,943,380	8,828,179
U.S. equity securities	36,388,235	38,958,955	45,364,224	52,958,767
Foreign equity securities	42,024,995	46,480,467	37,362,477	51,518,775
Total marketable securities	110,962,468	120,086,912	114,087,376	135,516,403
Alternative investments:				
Hedge funds and multi-strategy	22,500,000	25,587,264	30,000,000	33,947,011
Oil and gas	8,800,509	12,230,260	6,880,018	7,074,503
Private equity and venture capital	5,463,156	5,461,596	1,108,097	1,109,156
Real estate	7,512,440	8,981,160	4,484,055	5,252,696
Commodities and natural resources	7,492,502	9,286,630	7,492,576	7,526,497
Foreign currency	3,500,000	3,449,595	3,500,000	3,481,096
Total alternative investments	55,268,607	64,996,505	53,464,746	58,390,959
	\$ 166,231,075	\$ 185,083,417	\$ 167,552,122	\$ 193,907,362
Total	5	7	\$ 167,552,122	\$ 193,907,362

Note 3 - 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 1.95 percent and 4.75 percent at June 30, 2008 and 2007, respectively. At June 30, 2008 and 2007, the total discount on grants payable was \$72,193 and \$197,034, respectively.

Note 3 - Grants Payable (Continued)

The following summarizes the changes in grants payable:

	<u>2008</u>	<u>2007</u>
Grants payable - Beginning of year	\$ 3,227,966	\$ 4,082,357
Grants approved	8,497,916	7,587,030
Payments made	(9,036,794	(8,550,613
))
Change in discount on grants payable	124,841	109,317
Other adjustments	<u>(44,622)</u>	<u>(125)</u>
Grants payable - End of year	<u>\$ 2,769,307</u>	<u>\$ 3,227,966</u>

Conditional grants are expensed when such conditions are substantially met. Conditional grants approved for future payment were \$375,000 and \$500,000 at June 30, 2008 and 2007, respectively.

Note 4 - Excise Taxes

The Fund's excise tax (reduction) expense as of June 30, 2008 and 2007 is comprised of the following:

	<u>2008</u>	<u>2007</u>
Current	\$ 63,125	\$ 287,069
Deferred (reduction)	<u>(152,154)</u>	<u>(1,675)</u>
))
Total excise tax (reduction) expense	<u>\$ (89,029)</u>	<u>\$ 285,394</u>

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

Note 5 - Commitments

As of June 30, 2008, the Fund has outstanding commitments to purchase various investments in the amount of approximately \$38,736,000.

Note 6 - Pension Plan

The Fund sponsored a noncontributory defined benefit plan that covered eligible current and former full-time employees. During the year, the plan was terminated and the accumulated benefit obligation was settled by lump-sum payments to participants. Assets of approximately \$44,000 remain in the plan related to one participant's final lump-sum payment to be paid during the year ending June 30, 2009. Defined benefits were not provided under any successor plan.

Estimated pension expense related to service costs for the year ended June 30, 2008 is approximately \$31,000. Benefits paid totaled approximately \$11,000. The Fund made a "termination deficit payment" into the plan of approximately \$287,000. Termination distributions out of the plan totaled approximately \$901,000. The net gain on curtailment and settlement of approximately \$112,000 is recognized as a change in net assets for the year ended June 30, 2008.

The following table sets forth the funded status of the plan and other information as of and for the year ended June 30, 2007:

Projected benefit obligation	\$ (1,025,987)
Fair value of plan assets	<u>657,988</u>
Funded status at end of year	<u>\$ (367,999)</u>
Net periodic benefit cost	\$ 106,810
Employer contributions	-
Benefits paid	17,945

The accumulated benefit obligation at June 30, 2007 was \$688,576.

Note 7 - Deferred Compensation Plan

The Fund sponsors a defined contribution 401(k) plan for all eligible full-time employees, as defined. The employees may make elective contributions to the 401(k) plan in accordance with IRS regulations. The Fund matches 100 percent of each employee's contribution up to 4 percent of the employee's annual compensation. In addition, the Fund makes a contribution of 6 percent of each employee's annual compensation at the end of the year. The Fund also makes a transitional contribution of 10 percent of employee compensation for all employees employed as of December 31, 2007 for the duration of their employment. The Fund's defined contribution 401(k) plan became effective as of January 1, 2008. Total contributions to the Plan for the year ended June 30, 2008 amounted to approximately \$45,000.

Note 7 - Deferred Compensation Plan (Continued)

During 2008, the Fund established a nonqualified supplemental executive retirement plan for the benefit of a key employee. Under this agreement, the Fund is obligated to distribute benefits in the form of a lump-sum payment upon the employee's termination, retirement, or death. The expense incurred for the year ended June 30, 2008 was \$12,250.

Note 8 - Related Party

The president of the Fund also serves as a member and officer of the board of trustees. The president's compensation is approved by the board of trustees.

Additional Information

To the Board of Trustees
McGregor Fund

We have audited the financial statements of McGregor Fund as of June 30, 2008 and 2007. Our audits were made for the purpose of forming an opinion on the financial statements taken 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 basic financial statements. The information has been subjected to the procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

August 15, 2008

McGregor Fund

Details of Support Activities

	Year Ended	
	<u>June 30, 2007</u>	<u>June 30, 2006</u>
Management and General Expenses		
Salaries and benefits	\$ 683,612	\$ 657,284
Legal, accounting, and professional fees	68,608	40,435
Other administrative expenses	<u>188,848</u>	<u>195,284</u>
Total management and general expenses	<u>\$ 941,068</u>	<u>\$ 893,003</u>