

McGregor Fund

**Financial Report
with Additional Information
June 30, 2009**

McGregor Fund

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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, 2009 and 2008 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, 2009 and 2008 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 \$54,531,242 (39.3 percent of net assets) at June 30, 2009 and \$61,546,910 (33.5 percent of net assets) at June 30, 2008.

Plante & Moran, PLLC

August 17, 2009

McGregor Fund

Balance Sheet

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Assets		
Cash and cash equivalents	\$ 5,636,116	\$ 1,782,598
Investments (Note 2)	134,865,873	185,083,417
Accrued interest and dividends	17,129	21,065
Other assets:		
Prepaid expenses	2,756	18,232
Prepaid federal excise taxes	201,178	44,362
Total assets	<u><u>\$ 140,723,052</u></u>	<u><u>\$ 186,949,674</u></u>
Liabilities and Net Assets		
Liabilities		
Accrued expenses	\$ 91,540	\$ 155,408
Grants payable (Note 3)	1,810,133	2,769,307
Deferred excise taxes (Note 4)	-	374,951
Total liabilities	1,901,673	3,299,666
Net Assets - Unrestricted	<u>138,821,379</u>	<u>183,650,008</u>
Total liabilities and net assets	<u><u>\$ 140,723,052</u></u>	<u><u>\$ 186,949,674</u></u>

McGregor Fund

Statement of Activities and Changes in Net Assets

	Year Ended	
	June 30, 2009	June 30, 2008
Revenue, Gains, and Other Support		
Interest	\$ 677,285	\$ 1,371,867
Dividends	988,460	1,438,680
Net realized and unrealized losses on securities	(40,178,742)	(1,551,438)
Investment advisory fees and consulting services	(651,910)	(637,034)
Total revenue, gains, and other support - Net	(39,164,907)	622,075
Expenses		
Program services - Grants and related activities	4,965,800	8,873,131
Support services:		
Management and general	1,029,689	941,068
Federal excise tax (Note 4)	(331,767)	(89,029)
Total expenses	5,663,722	9,725,170
Decrease in Unrestricted Net Assets - Before other changes to net assets	(44,828,629)	(9,103,095)
Net Gain on Curtailment and Settlement of Pension Plan	-	112,514
Decrease in Net Assets	(44,828,629)	(8,990,581)
Net Assets - Beginning of year	183,650,008	192,640,589
Net Assets - End of year	\$ 138,821,379	\$ 183,650,008

McGregor Fund

Statement of Cash Flows

	Year Ended	
	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Cash Flows from Operating Activities		
Decrease in net assets	\$ (44,828,629)	\$ (8,990,581)
Adjustments to reconcile decrease in net assets to net cash from operating activities:		
Net realized and unrealized loss on securities	40,178,742	1,551,438
Deferred federal excise tax	(374,951)	(152,154)
Changes in operating assets and liabilities which provided (used) cash:		
Accrued interest and dividends	3,936	8,405
Prepaid expenses	15,476	(7,932)
Prepaid federal excise tax	(156,816)	63,124
Accrued expenses	(63,868)	64,123
Grants payable	(959,174)	(458,659)
Accrued pension liability	<u>-</u>	<u>(367,999)</u>
Net cash used in operating activities	(6,185,284)	(8,290,235)
Cash Flows from Investing Activities		
Purchases of investments	(78,056,144)	(117,569,579)
Proceeds from sales and maturities of investments	<u>88,094,946</u>	<u>124,842,086</u>
Net cash provided by investing activities	<u>10,038,802</u>	<u>7,272,507</u>
Net Increase (Decrease) in Cash and Cash Equivalents	3,853,518	(1,017,728)
Cash and Cash Equivalents - Beginning of year	<u>1,782,598</u>	<u>2,800,326</u>
Cash and Cash Equivalents - End of year	<u>\$ 5,636,116</u>	<u>\$ 1,782,598</u>

McGregor Fund

Notes to Financial Statements June 30, 2009 and 2008

Note I - 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. 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 I - 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.

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 balance sheet.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including August 17, 2009, which is the date the financial statements were issued.

McGregor Fund

Notes to Financial Statements June 30, 2009 and 2008

Note 2 - Investments

Investments consisted of the following at June 30:

	2009		2008	
	Cost	Fair Value	Cost	Fair Value
Marketable securities:				
Domestic fixed income securities	\$ 12,699,083	\$ 12,533,877	\$ 23,659,371	\$ 24,586,509
International fixed income securities	8,836,674	11,014,784	8,889,867	10,060,981
U.S. equity securities	27,879,863	21,933,203	36,388,235	38,958,955
Foreign equity securities	38,944,812	31,929,275	42,024,995	46,480,467
Total marketable securities	88,360,432	77,411,139	110,962,468	120,086,912
Alternative investments:				
Hedge funds and multi-strategy	23,706,296	25,909,153	22,500,000	25,587,264
Oil and gas	9,829,981	9,552,748	8,800,509	12,230,260
Private equity and venture capital	8,901,969	7,756,180	5,463,156	5,461,596
Real estate	10,268,425	8,006,917	7,512,440	8,981,160
Commodities and natural resources	2,492,918	3,306,244	7,492,502	9,286,630
Foreign currency	3,500,000	2,923,492	3,500,000	3,449,595
Total alternative investments	58,699,589	57,454,734	55,268,607	64,996,505
Total	\$ 147,060,021	\$ 134,865,873	\$ 166,231,075	\$ 185,083,417

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 0.19 percent and 1.95 percent at June 30, 2009 and 2008, respectively. At June 30, 2009 and 2008, the total discount on grants payable was \$3,867 and \$72,193, respectively.

McGregor Fund

Notes to Financial Statements June 30, 2009 and 2008

Note 3 - Grants Payable (Continued)

The following summarizes the changes in grants payable:

	<u>2009</u>	<u>2008</u>
Grants payable - Beginning of year	\$ 2,769,307	\$ 3,227,966
Grants approved	4,798,550	8,497,916
Payments made	(5,826,050)	(9,036,794)
Change in discount on grants payable	68,326	124,841
Other adjustments	<u>-</u>	<u>(44,622)</u>
Grants payable - End of year	<u>\$ 1,810,133</u>	<u>\$ 2,769,307</u>

Conditional grants are expensed when such conditions are substantially met. Conditional grants approved for future payment were \$430,000 and \$375,000 at June 30, 2009 and 2008, respectively.

Note 4 - Excise Taxes

The Fund's excise tax (reduction) expense as of June 30, 2009 and 2008 is comprised of the following:

	<u>2009</u>	<u>2008</u>
Current	\$ 43,184	\$ 63,125
Deferred (reduction)	<u>(374,951)</u>	<u>(152,154)</u>
Total excise tax (reduction) expense	<u>\$ (331,767)</u>	<u>\$ (89,029)</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, 2009, the Fund has outstanding commitments to purchase various investments in the amount of approximately \$29,748,000.

Note 6 - Pension Plan

In prior years, the Fund sponsored a noncontributory defined benefit plan that covered eligible current and former full-time employees. The plan was terminated during the year ended June 30, 2008, and the accumulated benefit obligation was settled by lump-sum payments to participants. Defined benefits were not provided under any successor plan.

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 years ended June 30, 2009 and 2008 amounted to approximately \$99,750 and \$45,000, respectively.

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 years ended June 30, 2009 and 2008 amounted to approximately \$46,000 and \$12,250, respectively.

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.

Note 9 - Fair Value Measurements

As of July 1, 2008, the Fund adopted Statement of Financial Accounting Standards No. 157 (SFAS 157), *Fair Value Measurements*. SFAS 157 clarifies the definition of fair value, establishes a framework for measuring fair value, and expands the disclosures for fair value measurements. The standard applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. The provisions of SFAS 157 are effective prospectively for periods beginning July 1, 2008 for financial assets and liabilities and for periods beginning July 1, 2009 for nonfinancial assets and liabilities as a result of the deferral of the effective date of SFAS 157 provided by FSP FAS 157-2. The implementation of the provisions of SFAS 157 for financial assets and liabilities as of July 1, 2008 did not have a material impact on the Fund's financial statements.

The following tables present information about the Fund's assets measured at fair value on a recurring basis at June 30, 2009 and the valuation techniques used by the Fund to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Fund has the ability to access.

Note 9 - Fair Value Measurements (Continued)

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 and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

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 or liability.

Assets Measured at Fair Value on a Recurring Basis at June 30, 2009

	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, 2009
Assets				
Cash equivalents - Money market mutual funds	\$ 5,554,765	\$ -	\$ -	\$ 5,554,765
Domestic fixed income securities	1,280,510	-	11,253,367	12,533,877
International fixed income securities	-	11,014,784	-	11,014,784
U.S. equity securities	13,422,875	1,394,104	7,116,224	21,933,203
Foreign equity securities	16,064,621	4,059,690	11,804,964	31,929,275
Hedge funds and multi-strategy	-	-	25,909,153	25,909,153
Oil and gas	-	-	9,552,748	9,552,748
Private equity and venture capital	-	-	7,756,180	7,756,180
Real estate	-	-	8,006,917	8,006,917
Commodities and natural resources	-	-	3,306,244	3,306,244
Foreign currency	2,923,492	-	-	2,923,492
Total	\$ 39,246,263	\$ 16,468,578	\$ 84,705,797	\$ 140,420,638

Note 9 - Fair Value Measurements (Continued)

Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis

	Domestic Fixed Income Securities	U.S. Equity Securities	Foreign Equity Securities	Hedge Funds and Multi- strategy	Oil and Gas	Private Equity and Venture Capital	Real Estate	Commodities and Natural Resources
Balance at July 1, 2008	\$ -	\$ 8,801,356	\$ 16,867,942	\$ 25,587,264	\$ 12,230,260	\$ 5,461,596	\$ 8,981,160	\$ 9,286,630
Total realized and unrealized losses included in change in net assets	(252,580)	(1,685,132)	(5,073,346)	(3,950,654)	(3,706,985)	(1,285,126)	(3,763,203)	(3,243,353)
Net purchases, sales, calls, and maturities	11,505,947	-	10,368	4,272,543	1,029,473	3,579,710	2,788,960	(2,737,033)
Balance at June 30, 2009	<u>\$ 11,253,367</u>	<u>\$ 7,116,224</u>	<u>\$ 11,804,964</u>	<u>\$ 25,909,153</u>	<u>\$ 9,552,748</u>	<u>\$ 7,756,180</u>	<u>\$ 8,006,917</u>	<u>\$ 3,306,244</u>

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

The Fund's limited partnership, hedge fund, and publicly traded securities, designed to resemble institutional collective fund investments, are categorized as Level 3 investments. The Fund's Level 3 real estate and natural resources investments have private equity or hedge fund structures. The Fund estimates the fair value of Level 3 investments based on information provided by the general partners and fund managers, liquidity restrictions, redemption terms, and other events and circumstances that may affect the fair value of the investment.

Additional Information



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To the Board of Trustees
McGregor Fund

We have audited the financial statements of McGregor Fund as of June 30, 2009 and 2008. 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 financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Plante & Moran, PLLC

August 17, 2009

McGregor Fund

Details of Support Activities

	Year Ended	
	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Management and General Expenses		
Salaries and benefits	\$ 791,365	\$ 683,612
Legal, accounting, and professional fees	29,841	68,608
Other administrative expenses	<u>208,483</u>	<u>188,848</u>
Total management and general expenses	<u>\$ 1,029,689</u>	<u>\$ 941,068</u>