

McGregor Fund

**Financial Report
with Additional Information
June 30, 2007**

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, 2007 and 2006 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, 2007 and 2006 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 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 investment managers.

Alante & Moran, PLLC

August 10, 2007

McGregor Fund

Balance Sheet

	June 30, 2007	June 30, 2006
Assets		
Cash and cash equivalents	\$ 2,800,326	\$ 538,283
Investments (Note 2)	193,907,362	177,491,304
Accrued interest and dividends	29,470	396,406
Other assets:		
Prepaid expenses	10,300	49,054
Prepaid federal excise taxes	107,486	93,179
Total assets	<u>\$ 196,854,944</u>	<u>\$ 178,568,226</u>
Liabilities and Net Assets		
Liabilities		
Accrued expenses	\$ 91,285	\$ 78,883
Grants payable (Note 3)	3,227,966	4,082,357
Deferred excise taxes (Note 4)	527,105	528,780
Accrued pension liability (Note 6)	367,999	93,462
Total liabilities	4,214,355	4,783,482
Net Assets - Unrestricted	<u>192,640,589</u>	<u>173,784,744</u>
Total liabilities and net assets	<u>\$ 196,854,944</u>	<u>\$ 178,568,226</u>

McGregor Fund

Statement of Activities and Changes in Net Assets

	Year Ended	
	June 30, 2007	June 30, 2006
Revenue, Gains, and Other Support		
Interest	\$ 1,127,324	\$ 2,371,967
Dividends	1,339,885	2,089,241
Net realized and unrealized gains on securities	26,469,214	12,057,646
Investment advisory fees and consulting services	<u>(588,058)</u>	<u>(589,285)</u>
Total revenue, gains, and other support	28,348,365	15,929,569
Expenses		
Program services - Grants and related activities	8,146,396	6,827,148
Support services:		
Management and general	893,003	801,613
Federal excise tax (Note 4)	<u>285,394</u>	<u>(7,004)</u>
Total expenses	<u>9,324,793</u>	<u>7,621,757</u>
Increase in Unrestricted Net Assets - Before other changes to net assets	19,023,572	8,307,812
Effect of Adoption, Recognition, and Measurement Date Provisions of FASB Statement No. 158 (Note 6)	<u>(167,727)</u>	<u>-</u>
Increase in Net Assets	18,855,845	8,307,812
Net Assets - Beginning of year	<u>173,784,744</u>	<u>165,476,932</u>
Net Assets - End of year	<u>\$ 192,640,589</u>	<u>\$ 173,784,744</u>

McGregor Fund

Statement of Cash Flows

	Year Ended	
	June 30, 2007	June 30, 2006
Cash Flows from Operating Activities		
Increase in net assets	\$ 18,855,845	\$ 8,307,812
Adjustments to reconcile increase in net assets to net cash from operating activities:		
Net realized and unrealized gains on securities	(26,469,214)	(12,057,646)
Changes in operating assets and liabilities which provided (used) cash:		
Accrued interest and dividends	366,936	44,809
Prepaid expenses	38,754	7,910
Prepaid federal excise tax	(14,307)	(81,577)
Accrued expenses	12,402	(11,212)
Grants payable	(854,391)	(2,064,734)
Deferred federal excise tax	(1,675)	(350,427)
Accrued pension liability	274,537	93,462
Net cash used in operating activities	(7,791,113)	(6,111,603)
Cash Flows from Investing Activities		
Purchases of investments	(75,259,345)	(280,148,556)
Proceeds from sales and maturities of investments	85,312,501	273,193,089
Net cash provided by (used in) investing activities	10,053,156	(6,955,467)
Net Increase (Decrease) in Cash and Cash Equivalents	2,262,043	(13,067,070)
Cash and Cash Equivalents - Beginning of year	538,283	13,605,353
Cash and Cash Equivalents - End of year	\$ 2,800,326	\$ 538,283
Supplemental Disclosure of Cash Flow Information - Cash paid for		
Taxes	\$ 300,000	\$ 425,000
Grants and matching gifts	9,000,787	8,891,883

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. 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.

Reclassification - Certain reclassifications were made to amounts in the 2006 financial statements to conform to the classification used in 2007.

Note 2 - Investments

Investments consisted of the following at June 30:

	2007		2006	
	Cost	Fair Value	Cost	Fair Value
Marketable securities:				
Domestic fixed income securities	\$ 22,417,295	\$ 22,210,682	\$ 23,031,651	\$ 22,842,884
International fixed income securities	8,943,380	8,828,179	8,997,215	8,868,396
U.S. equity securities	45,364,224	52,958,767	29,579,646	50,577,022
Foreign equity securities	<u>37,362,477</u>	<u>51,518,775</u>	<u>42,890,883</u>	<u>46,487,092</u>
Total marketable securities	114,087,376	135,516,403	104,499,395	128,775,394
Alternative investments:				
Hedge funds and multi-strategy	30,000,000	33,947,011	30,000,000	32,137,008
Oil and gas	6,880,018	7,074,503	2,694,370	2,591,123
Private equity and venture capital	1,108,097	1,109,156	160,000	160,000
Real estate	4,484,055	5,252,696	3,458,203	3,567,905
Commodities and natural resources	7,492,576	7,526,497	9,546,287	10,259,874
Foreign currency	<u>3,500,000</u>	<u>3,481,096</u>	-	-
Total alternative investments	<u>53,464,746</u>	<u>58,390,959</u>	<u>45,858,860</u>	<u>48,715,910</u>
Total	<u>\$ 167,552,122</u>	<u>\$ 193,907,362</u>	<u>\$ 150,358,255</u>	<u>\$ 177,491,304</u>

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 4.75 percent and 5 percent at June 30, 2007 and 2006, respectively. At June 30, 2007 and 2006, the total discount on grants payable was \$197,034 and \$306,351, respectively.

The following summarizes the changes in grants payable:

	<u>2007</u>	<u>2006</u>
Grants payable - Beginning of year	\$ 4,082,357	\$ 6,147,091
Grants approved	7,587,030	5,798,880
Payments made	(8,550,613)	(7,879,463)
Change in discount on grants payable	109,317	15,849
Other adjustments	<u>(125)</u>	<u>-</u>
Grants payable - End of year	<u>\$ 3,227,966</u>	<u>\$ 4,082,357</u>

Conditional grants are expensed when such conditions are substantially met. Conditional grants approved for future payment were \$500,000 and \$750,000 at June 30, 2007 and 2006, respectively.

Note 4 - Excise Taxes

The Fund's excise tax expense (reduction) as of June 30, 2007 and 2006 is comprised of the following:

	<u>2007</u>	<u>2006</u>
Current	\$ 287,069	\$ 343,423
Deferred (reduction)	<u>(1,675)</u>	<u>(350,427)</u>
Total excise tax expense (reduction)	<u>\$ 285,394</u>	<u>\$ (7,004)</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, 2007, the Fund has outstanding commitments to purchase various investments in the amount of approximately \$31,253,000.

Note 6 - Pension and Other Postretirement Benefit Plans

The Fund sponsors a noncontributory defined benefit plan covering eligible current and former full-time employees. During the year, the Fund implemented Statement of Financial Accounting Standards No. 158 (SFAS 158). The following table sets forth the funded status of the plan and other information as of and for the years ended June 30, 2007 and 2006:

Obligations and Funded Status

	<u>2007</u>	<u>2006</u>
Projected benefit obligation	\$ (1,025,987)	\$ (886,195)
Fair value of plan assets at beginning of year	<u>657,988</u>	<u>593,627</u>
Funded status at end of year	<u>\$ (367,999)</u>	<u>\$ (292,568)</u>

Amounts recognized in the balance sheet consist of accrued pension liability in the amount of \$367,999 and \$93,462 at June 30, 2007 and 2006, respectively.

Amounts recognized as a change in net assets consist of the following:

	<u>2007</u>	<u>2006</u>
Net loss	\$ 141,025	\$ -
Adjustment for change in measurement date	<u>26,702</u>	<u>-</u>
Total	<u>\$ 167,727</u>	<u>\$ -</u>

The accumulated benefit obligation was \$688,576 and \$583,853 at June 30, 2007 and 2006, respectively.

Net Periodic Benefit Cost, Employer Contributions, and Benefits Paid

	<u>2007</u>	<u>2006</u>
Net periodic benefit cost	\$ 106,810	\$ 93,462
Employer contributions	-	-
Benefits paid	17,945	31,384

Note 6 - Pension and Other Postretirement Benefit Plans (Continued)

Assumptions

	Percent	
	2007	2006
Actuarial assumptions used to determine benefit obligations at June 30:		
Discount rate	6.25	6.00
Increase in future compensation levels	5.00	5.00
Actuarial assumptions used to determine net periodic benefit cost for years ended June 30:		
Discount rate	6.00	5.75
Expected long-term return on plan assets	8.00	8.00
Rate of compensation increase	5.00	5.00

The overall expected rate of return on plan assets represents a weighted-average composite rate based on the historical rates of returns of the respective asset classes adjusted for anticipated market movements.

Plan Assets

The Fund's pension plan weighted-average asset allocations at June 30, 2007 and 2006, by asset category, are as follows:

	Percent	
	2007	2006
Equity securities	67	67
Debt securities	32	33
Other	1	-
Total	<u>100</u>	<u>100</u>

The goals of the investment program are to fully fund the obligation to pay retirement benefits in accordance with the plan documents and to provide returns that, along with appropriate funding from the Fund, maintain an asset/liability ratio that is in compliance with all applicable laws and regulations and assures timely payment of retirement benefits. The target allocation range of percentages for each major category of plan assets is as follows:

Equity securities	67%
Debt securities	33%

Note 6 - Pension and Other Postretirement Benefit Plans (Continued)

No contributions are expected to be made in the next fiscal year.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

2008	\$ 13,881
2009	13,365
2010	12,809
2011	12,211
2012	11,571
2013-2017	62,872

Additional Information

To the Board of Trustees
McGregor Fund

We have audited the financial statements of McGregor Fund as of June 30, 2007 and 2006. 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 10, 2007

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	\$ 657,284	\$ 582,625
Legal, accounting, and other professional fees	40,435	43,102
Other administrative expenses	<u>195,284</u>	<u>175,886</u>
Total management and general expenses	<u>\$ 893,003</u>	<u>\$ 801,613</u>