

Ethel and James Flinn Foundation

Financial Report
December 31, 2010

Ethel and James Flinn Foundation

Contents

Report Letter	I
Financial Statements - Modified Cash Basis	
Balance Sheet	2
Statement of Income, Expenses, and Changes in Net Assets	3
Notes to Financial Statements	4-12

Independent Auditor's Report

To the Board of Directors
Ethel and James Flinn Foundation

We have audited the accompanying modified cash basis balance sheet of the Ethel and James Flinn Foundation (the "Foundation") as of December 31, 2010 and 2009 and the related modified cash basis statement of income, expenses, and changes in net assets for the years then ended. These financial statements are the responsibility of the Foundation'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.

As described in Note 1, these financial statements were prepared on the modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ethel and James Flinn Foundation at December 31, 2010 and 2009 and the changes in its net assets for the years then ended, on the basis of accounting described in Note 1.

As explained in Note 2, the financial statements include investments valued at approximately \$19 million and \$17 million (approximately 32 and 31 percent of net assets) as of December 31, 2010 and 2009, respectively, whose fair values have been estimated by management in absence of readily determinable fair values. Management's estimates are based on information provided by the investment managers.

Plante & Moran, PLLC

July 13, 2011

Ethel and James Flinn Foundation

Balance Sheet - Modified Cash Basis

	December 31, 2010	December 31, 2009
Assets		
Retail account	\$ 395,787	\$ 179,940
Investments at fair value (Note 2)	<u>59,246,225</u>	<u>55,188,831</u>
Total assets	<u>\$ 59,642,012</u>	<u>\$ 55,368,771</u>
Net Assets - Unrestricted	<u>\$ 59,642,012</u>	<u>\$ 55,368,771</u>

Ethel and James Flinn Foundation

Statement of Income, Expenses, and Changes in Net Assets Modified Cash Basis

	Year Ended	
	December 31, 2010	December 31, 2009
	(Unrestricted)	
Income		
Contributions	\$ -	\$ 747,698
Interest income	585,053	573,426
Dividend income	544,859	746,207
Mining royalties	118,443	85,688
Miscellaneous income	7,306	6,900
Realized loss on investments	(1,062,644)	(5,739,096)
Investment fees	(19,362)	(19,082)
Net income	173,655	(3,598,259)
Grants and Expenses		
Grants and contributions (Note 5)	1,975,686	2,476,200
Management and general	588,506	521,399
Total grants and expenses	2,564,192	2,997,599
Grants and Expenses in Excess of Income	(2,390,537)	(6,595,858)
Change in Unrealized Market Appreciation	6,663,778	15,585,388
Increase in Net Assets	4,273,241	8,989,530
Net Assets - Beginning of year	55,368,771	46,379,241
Net Assets - End of year	<u>\$ 59,642,012</u>	<u>\$ 55,368,771</u>

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2010 and 2009

Note I - Nature of Business and Significant Accounting Policies

Nature of Operations - The Ethel and James Flinn Foundation (the "Foundation") was established in 1976 by "Peggy" W. Flinn to remember her parents, Ethel G. and James H. Flinn, and her brother, James "Jim" H. Flinn Jr., and to provide a means for family philanthropy. The Foundation was originally established as a charitable nonprofit corporation under Michigan laws and Sections 501(c)(3) and 501(a)(3) of the Internal Revenue Code but was reclassified in 2005 as a private foundation under Section 501(c)(3). The Foundation received additional assets in 2007 upon the passing of the last family member, James "Jim" H. Flinn, Jr.

The Foundation is committed to improving the quality of life of children, adolescents, and adults with mental illness and emotional disturbance by improving the quality, scope, and delivery of mental health services. The Foundation uses its resources through research to develop, evaluate, and implement best practice treatment programs.

Retail Account - The Foundation maintains a retail checking account to pay all operational and grant expenses.

Investments - Money market investment funds are under the custody of fund managers and represent temporarily uninvested monies and short-term investments consisting of funds collected.

Investments in common and preferred stocks, bonds, U.S. Treasury bills, and mutual funds are carried at quoted fair market value whenever available. The change in unrealized market appreciation is included annually in the statement of income, expenses, and changes in net assets. Realized gains and losses are recorded using specific identification of the assets sold.

The investment in iron mining property is carried at appraised value determined by independent third parties.

The alternative investments, comprised primarily of funds of funds, multi-asset funds, private equity funds, and real estate funds, a significant amount of which are not readily marketable, are carried at estimated fair values as provided by the various fund managers. The Foundation management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and significant assumptions used in determining fair value. Those estimated fair values are subject to uncertainty and may differ significantly from the values that would have been used had a ready market for these securities existed.

Contributions - Contributions of cash and other assets are reported as revenue when received, measured at fair value.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2010 and 2009

Note 1 - Nature of Business and Significant Accounting Policies (Continued)

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

The Foundation is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes it is no longer subject to income tax examinations for years prior to December 31, 2007.

Modified Cash Basis of Accounting - The financial statements of the Foundation are prepared on the modified cash basis of accounting, except for the recording of the Foundation's investments at market value. Under the modified cash basis of accounting, revenue is recorded when received and expenses are recorded when paid.

Use of Estimates - The preparation of financial statements in conformity with the modified cash basis of accounting 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.

Risks and Uncertainties - The Foundation 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 July 13, 2011, which is the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements

Accounting standards require certain assets 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 Foundation's assets measured at fair value on a recurring basis at December 31, 2010 and 2009 and the valuation techniques used by the Foundation to determine those fair values.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2010 and 2009

Note 2 - Fair Value Measurements (Continued)

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Foundation 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.

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. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the 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 Foundation'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 December 31, 2010

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2010
Cash equivalents - Money market mutual funds	\$ 453,797	\$ -	\$ -	\$ 453,797
Common stock mutual funds - Domestic	12,645,550	-	-	12,645,550
Common stock mutual funds - Foreign	11,144,637	-	-	11,144,637
Fixed-income mutual funds - Domestic	7,671,418	-	-	7,671,418
Fixed-income mutual funds - Foreign	2,554,145	-	-	2,554,145
Multi-asset funds	2,596,866	5,306,087	-	7,902,953
Hedge funds	1,348,532	-	7,133,145	8,481,677
Real estate and other	1,638,569	1,831,374	3,855,424	7,325,367
Private equity	-	-	1,066,681	1,066,681
Total	\$ 40,053,514	\$ 7,137,461	\$ 12,055,250	\$ 59,246,225

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2010 and 2009

Note 2 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2009

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at December 31, 2009
Cash equivalents - Money market mutual funds	\$ 438,515	\$ -	\$ -	\$ 438,515
Common stock mutual funds - Domestic	11,530,188	-	-	11,530,188
Common stock mutual funds - Foreign	10,467,532	-	-	10,467,532
Fixed-income mutual funds - Domestic	7,673,313	-	-	7,673,313
Fixed-income mutual funds - Foreign	2,482,239	-	-	2,482,239
Multi-asset funds	2,615,276	4,796,150	-	7,411,426
Hedge funds	1,258,333	-	6,631,630	7,889,963
Real estate and other	1,661,657	1,551,509	3,542,482	6,755,648
Private equity	-	-	540,007	540,007
Total	\$ 38,127,053	\$ 6,347,659	\$ 10,714,119	\$ 55,188,831

The following tables sets forth a summary of the changes in the fair value of the Foundation's Level 3 assets for the years ended December 31, 2010 and 2009:

	Fair Value at January 1, 2010	Purchases and Sales	Total Realized and Unrealized Gains	Fair Value at December 31, 2010
Hedge funds	\$ 6,631,630	\$ -	\$ 501,515	\$ 7,133,145
Real estate and other	3,542,482	(4,153)	317,095	3,855,424
Private Equity	540,007	430,614	96,060	1,066,681
Total Level 3 assets at fair value	\$ 10,714,119	\$ 426,461	\$ 914,670	\$ 12,055,250

	Fair Value at January 1, 2009	Purchases and Sales	Total Realized and Unrealized Gains (Losses)	Fair Value at December 31, 2009
Hedge funds	\$ 5,222,373	\$ -	\$ 1,409,257	\$ 6,631,630
Real estate and other	4,012,569	481,099	(951,186)	3,542,482
Private equity	279,750	348,125	(87,868)	540,007
Total Level 3 assets at fair value	\$ 9,514,692	\$ 829,224	\$ 370,203	\$ 10,714,119

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2010 and 2009

Note 2 - Fair Value Measurements (Continued)

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.

Hedge funds categorized as Level 3 assets primarily consist of investments in funds of funds. The Foundation estimates the fair value of these investments based on the net asset values provided by the fund managers at year end.

Real estate and other investments categorized as Level 3 assets primarily consist of investment in a real estate partnership fund. The Foundation estimates the fair value of these investments based on the net asset value provided by the fund manager at year end. The net asset value is based on appraisal of the underlying properties and the present value of future cash flows of mortgage receivables.

Private equity funds categorized as Level 3 assets primarily consist of investments in partnerships. The Foundation estimates the fair value of these investments based on net asset values received monthly from the partnerships as well as audited financial statements.

Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies at year end whereby the fair value of the investment held is estimated based on the net asset value per share (or its equivalent) of the investment company.

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

Investments Held at December 31, 2010

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Multi-asset funds	\$ 5,306,087	\$ -	Quarterly	60 days
Hedge funds	7,133,145	-	Quarterly	45-60 days
Real estate and other	5,686,798	-	Monthly-Quarterly	30-60 days
Private equity	<u>1,066,681</u>	2,769,250	Quarterly	60 days
Total	<u>\$ 19,192,711</u>			

Subsequent to the year ended December 31, 2011, the Foundation committed \$1,000,000 to a new private equity investment.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2010 and 2009

Note 2 - Fair Value Measurements (Continued)

Investments Held at December 31, 2009

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Multi-asset funds	\$ 4,796,150	\$ -	Quarterly	60 days
Hedge funds	6,631,631	-	Quarterly	45-60 days
Real estate and other	5,093,990	-	Monthly-Quarterly	30-60 days
Private equity	<u>540,007</u>	2,743,595	Quarterly	60 days
Total	<u>\$ 17,061,778</u>			

To seek long-term capital appreciation, the Foundation's investment portfolio includes a 36 percent target allocation to alternative investments. This asset class consists primarily of a broad spectrum of cost-effective limited partnerships, which in turn, invest principally in market neutral and multi-strategy hedge funds, real estate investment trusts, commodities, natural resources, venture capital, and private equity funds that are not all actively traded at the time of investment. The fair values of the investments have been estimated.

Note 3 - Lease Commitments

The Foundation entered into a lease with the Community Foundation of Southeast Michigan, effective December 1, 2007. The lease agreement requires monthly payments ranging from \$1,331 to \$1,520 through November 30, 2012. Total rent expense under this lease was \$17,772 and \$17,332 for the years ended December 31, 2010 and 2009, respectively.

Note 4 - Employee Benefit Plan

The Foundation sponsors a qualified 403(b) defined contribution plan for its employees. Total contributions to the plan were \$31,500 and \$31,300 for the years ended December 31, 2010 and 2009, respectively.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2010 and 2009

Note 5 - Schedule of Grants, Contracts, and Contributions

The Foundation is a private foundation which distributes money for charitable, educational, and public welfare purposes. The detail of grants consisted of the following major initiatives for the years ended December 31, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Integrated Health Care Initiative		
<i>To advance the integration of mental health services into primary care settings</i>		
Adult Well-Being Services	\$ 25,000	\$ -
Children's Hospital of Michigan	125,000	125,000
Henry Ford Health System	175,000	175,000
Sinai Hospital of Greater Detroit	150,000	150,000
St. Joseph Mercy Oakland	150,000	150,000
Washtenaw Community Health Organization	223,000	-
Wayne State University - Department of Internal Medicine	150,000	150,000
Evidence-Based Practices Programs		
<i>To translate effective treatment programs and practices into everyday clinical use</i>		
Community Care Services	-	125,000
Detroit East	-	125,000
Henry Ford Cottage Hospital	-	70,000
Judson Center	-	120,000
Kadima	-	125,000
Michigan Mental Health Evidence-based Practice Initiative	-	396,000
Northeast Guidance Center	-	125,000
Regents of the University of Michigan	-	100,000
Regents of the University of Michigan (grant return)	(5,747)	-
Rose Hill Center	-	80,000
Rose Hill Center (grant return)	(1,813)	-
Southwest Counseling	-	125,000
Starfish Family Services	-	50,000
Wayne State University (grant return)	(1,172)	(3,832)

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2010 and 2009

Note 5 - Schedule of Grants, Contracts, and Contributions (Continued)

	2010	2009
Grantmaking Opportunities		
<i>To improve service delivery of mental health providers</i>		
Children's Hospital of Michigan	\$ 49,000	\$ -
Community Care Services	50,000	-
Covenant Community Care	-	25,000
Detroit Central City Community Mental Health	35,000	-
Detroit Science Center	75,000	-
Detroit Wayne County Health Authority	85,000	-
Henry Ford Health System	30,000	-
Kadima Jewish Support Services	50,000	-
Mental Health Association of Michigan	50,000	-
Michigan Department of Community Health	-	30,000
Michigan State University	35,000	-
New Passages	20,000	-
Regents of the University of Michigan	40,000	25,000
Rose Hill Center	20,000	-
University of Detroit Mercy	25,000	-
Wayne State University	30,000	-
Wayne State University	48,000	-
William Beaumont Hospital	25,000	-
Total grants	1,656,268	2,267,168
Consulting Contracts - Public Sector Consultants, Michael Fauman, Enlighten, and Paul Smyth	296,233	192,257
Matching Gifts Program	14,510	-
Contributions		
Association for Children's Mental Health	125	125
Council on Foundations	-	8,100
Council of Michigan Foundations	6,300	6,300
Grantmakers in Health	500	500
Michigan Health Association in Michigan	100	100
Michigan Association for Children with Emotional Disorders (MACED)	100	100
National Alliance for Research on Schizophrenia and Depression	200	200
National Alliance on Mental Illness	250	250
National Alliance on Mental Illness - Michigan	100	100
University of Michigan	1,000	1,000
Total contributions	8,675	16,775
Total grants, contracts, and contributions	<u>\$ 1,975,686</u>	<u>\$ 2,476,200</u>

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2010 and 2009

Note 6 - Cash to Accrual

The Foundation's financial statements were prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. The cash to accrual adjustments that comply with GAAP are listed below:

	2010	2009
Receivables - Investment income	\$ 66,651	\$ 66,231
Payables - Outstanding grant commitments	905,000	1,426,000

Included in outstanding grant commitments at December 31, 2010 is \$375,000 related to three grants that were scheduled to be paid during 2010; however, payment was delayed until 2011.