

Ethel and James Flinn Foundation

Financial Report
December 31, 2008

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	4-10



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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 Ethel and James Flinn Foundation (the "Foundation") as of December 31, 2008 and 2007 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 I, 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 Ethel and James Flinn Foundation at December 31, 2008 and 2007 and the changes in its net assets for the years then ended, on the basis of accounting described in Note I.

As explained in Note I, the financial statements include investments valued at approximately \$14.6 million (approximately 31 percent of net assets) 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 24, 2009

Ethel and James Flinn Foundation

Balance Sheet - Modified Cash Basis

	December 31, 2008	December 31, 2007
Assets		
Cash and cash equivalents	\$ 1,905,226	\$ 1,284,493
Investments (Note 2)	44,474,015	67,588,369
Total assets	<u>\$ 46,379,241</u>	<u>\$ 68,872,862</u>
Net Assets		
Net Assets - Unrestricted	<u>\$ 46,379,241</u>	<u>\$ 68,872,862</u>

Ethel and James Flinn Foundation

Statement of Income, Expenses, and Changes in Net Assets

	Year Ended					
	December 31, 2008			December 31, 2007		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Income						
Contributions	\$ 900,014	\$ -	\$ 900,014	\$ 53,063,482	\$ -	\$ 53,063,482
Interest income	801,587	-	801,587	351,332	-	351,332
Dividend income	972,228	-	972,228	629,597	-	629,597
Mining royalties	86,698	-	86,698	196,121	-	196,121
Miscellaneous income	3,792	-	3,792	7,981	-	7,981
Investment fees	(16,431)	-	(16,431)	(54,932)	-	(54,932)
Net assets released from restrictions	-	-	-	22,500	(22,500)	-
Net investment and contribution income	2,747,888	-	2,747,888	54,216,081	(22,500)	54,193,581
Grants and Expenses						
Grants and contributions (Note 6)	3,178,738	-	3,178,738	1,580,697	-	1,580,697
Fund-raising for MiMHEBPI	-	-	-	95,420	-	95,420
Management and general	642,970	-	642,970	280,515	-	280,515
Total expenses	3,821,708	-	3,821,708	1,956,632	-	1,956,632
Excess of Grants and Expenses (Over) Under Income	(1,073,820)	-	(1,073,820)	52,259,449	(22,500)	52,236,949
Change in Unrealized Market Appreciation	(22,318,902)	-	(22,318,902)	(1,657,955)	-	(1,657,955)
Realized Gain on Investments	899,101	-	899,101	2,555,960	-	2,555,960
(Decrease) Increase in Net Assets	(22,493,621)	-	(22,493,621)	53,157,454	(22,500)	53,134,954
Net Assets - Beginning of year	68,872,862	-	68,872,862	15,715,408	22,500	15,737,908
Net Assets - End of year	\$ 46,379,241	\$ -	\$ 46,379,241	\$ 68,872,862	\$ -	\$ 68,872,862

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2008 and 2007

Note I - Nature of Business and Significant Accounting Policies

Nature of Operations - Ethel and James Flinn Foundation (the "Foundation") was established in 1976 and is a private foundation whose governing instrument states that its endowment is to be held for the programs or activities that support research into the causes of and/or the treatment of nervous and mental diseases.

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

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 activities 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. 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.

Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets.

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.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2008 and 2007

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

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.

Reclassification - Certain reclassifications were made to amounts in the 2007 financial statements to conform to the classifications used in 2008.

Note 2 - Investments

Investments consisted of the following at December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Fixed income mutual funds	\$ 8,664,190	\$ 13,637,670
Real estate - Iron mining property	457,958	457,958
Common stock mutual funds	17,993,556	30,323,989
Multi-asset funds	6,019,275	8,483,754
Funds of funds	5,222,373	6,811,956
Other alternative investments	5,836,913	7,826,936
Private equity funds	<u>279,750</u>	<u>46,106</u>
Total	<u>\$ 44,474,015</u>	<u>\$ 67,588,369</u>

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2008 and 2007

Note 3 - Fair Value Measurements

As of January 1, 2008, the Foundation 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 January 1, 2008 for financial assets and liabilities and for periods beginning January 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 following tables present information about the Foundation's assets and liabilities measured at fair value on a recurring basis at December 31, 2007 and the valuation techniques used by the Foundation 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 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 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 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.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2008 and 2007

Note 3 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2008

	Quoted Prices in			Balance at December 31, 2008
	Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Assets				
Cash equivalents - Money market mutual funds	\$ 1,893,695	\$ -	\$ -	\$ 1,893,695
Investments - Common stock mutual funds	17,993,556	-	-	17,993,556
Investments - Fixed income mutual funds	8,664,190	-	-	8,664,190
Investments - Multi-asset funds	2,166,418	3,852,857	-	6,019,275
Investments - Funds of funds	-	-	5,222,373	5,222,373
Investments - Real estate and other	1,063,349	1,218,953	4,012,569	6,294,871
Investments - Private equity	-	-	279,750	279,750
Total	\$ 31,781,208	\$ 5,071,810	\$ 9,514,692	\$ 46,367,710

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

	Investments
Balance at December 31, 2007	\$ 11,344,093
Total realized and unrealized losses included in income	(2,052,526)
Net purchases, sales, calls, and maturities	223,125
Balance at December 31, 2008	<u>\$ 9,514,692</u>

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

Funds of funds categorized as Level 3 assets primarily consist of investments in hedge funds. The Foundation estimates the fair value of these investments based 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.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2008 and 2007

Note 3 - Fair Value Measurements (Continued)

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.

Note 4 - Lease Commitments

Through December 31, 2007, the Foundation leased its office space under a lease agreement with Clark Hill P.L.C. The lease agreement requires monthly payments of \$1,000 made to Clark Hill P.L.C. on the first day of each month. Total rent expense under this lease was \$12,000 for December 31, 2007.

The Foundation entered into a new 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 \$14,751 and \$1,331 for the years ended December 31, 2008 and 2007, respectively.

Note 5 - Employee Benefit Plan

The Foundation sponsors a qualified 403(b) defined contribution plan for its employees. Total contributions to the plan were \$29,851 and \$10,001 for the years ended December 31, 2008 and 2007, respectively.

Note 6 - 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 contributions consisted of the following for the years ended December 31, 2008 and 2007:

	2008	2007
Grants:		
Association for Children's Mental Health	\$ 48,000	\$ -
Children's Hospital of Michigan	125,000	-
Community Care Services	125,000	-
Detroit East Community Mental Health	125,000	-
Detroit Institute for Children	50,000	-
Henry Ford Cottage Hospital	70,000	-
Henry Ford Health System	225,000	-
Judson Center	120,000	-
Kadima	125,000	-
Mental Health Association of Michigan	75,000	-

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2008 and 2007

Note 6 - Schedule of Grants, Contracts, and Contributions (Continued)

	2008	2007
Grants (Continued):		
Michigan Department of Community fbo Oakland Primary Health Services, Inc.	\$ 150,000	\$ -
Michigan Department of Community fbo Western Wayne Family Health Centers	125,000	-
Michigan Primary Care Associations	50,000	-
MiMHEBPI	402,000	1,329,500
National Alliance on Mental Illness - Michigan	50,000	-
Northeast Guidance Center	125,000	-
Oakland County Community Mental Health Authority (grant return)	(39,954)	-
Regents of the University of Michigan	150,000	-
Rose Hill Center	80,000	-
Sinai Hospital of Greater Detroit	150,000	-
Southwest Counseling Solutions	125,000	-
St. Joseph Mercy Oakland	150,000	-
Starfish Family Services	50,000	-
Training and Treatment Innovations, Inc.	35,000	-
University of Michigan	-	95,000
Washtenaw Community Health Organization	195,000	-
Wayne State University	89,000	-
Wayne State University Internal Medicine Department	150,000	-
Wayne State University School of Medicine	-	100,000
Total grants	3,124,046	1,524,500
Contracts-Public Sector-Phase II	40,102	51,147
Contributions:		
Association for Children's Mental Health	125	-
Council on Foundations	4,050	-
Council of Michigan Foundations	7,200	3,000
Grantmakers in Health	1,000	500
Michigan Association for Children with Emotional Disorders	100	-
Michigan Health Association of Michigan	100	100
NARSAD Research	100	100
National Alliance for the Mentally Ill	250	250

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2008 and 2007

Note 6 - Schedule of Grants, Contracts, and Contributions (Continued)

	<u>2008</u>	<u>2007</u>
Contributions (Continued):		
National Alliance for the Mentally Ill-Michigan	\$ 100	\$ 100
University of Michigan Depression Center	1,000	1,000
US Psychiatric Rehabilitation	565	-
Total contributions	<u>14,590</u>	<u>5,050</u>
Total grants, contracts, and contributions	<u>\$ 3,178,738</u>	<u>\$ 1,580,697</u>