

Ethel and James Flinn Foundation

Financial Report
December 31, 2013

Ethel and James Flinn Foundation

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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, 2013 and 2012 and the related modified cash basis statement of income, expenses, and changes in net assets for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the modified cash basis of accounting described in Note 1; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

To the Board of Directors
Ethel and James Flinn Foundation

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ethel and James Flinn Foundation as of December 31, 2013 and 2012 and the changes in its net assets for the years then ended, on the basis of accounting described in Note 1.

Basis of Accounting

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. Our opinion is not modified with respect to this matter.

Emphasis of Matter

As explained in Note 2, the financial statements included investments at approximately \$17 million and \$16 million (approximately 27 percent and 28 percent of net assets) as of December 31, 2013 and 2012, respectively, 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.

Plante & Moran, PLLC

September 10, 2014

Ethel and James Flinn Foundation

Balance Sheet Modified Cash Basis

	December 31, 2013	December 31, 2012
Assets		
Cash (Note 1)	\$ 319,479	\$ 238,379
Investments at fair value (Note 2)	<u>63,301,780</u>	<u>58,460,550</u>
Net Assets - Unrestricted	<u>\$ 63,621,259</u>	<u>\$ 58,698,929</u>

Ethel and James Flinn Foundation

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

	Year Ended	
	December 31, 2013	December 31, 2012
	(Unrestricted)	
Income		
Interest income	\$ 665,520	\$ 548,054
Dividend income	1,382,354	869,617
Mining royalties	159,149	49,127
Miscellaneous income	1,037	522
Realized gain (loss) on investments	786,029	(1,592,276)
Investment fees	(45,601)	(56,943)
Net realized income (loss)	2,948,488	(181,899)
Grants and Expenses		
Grants and grant-related expenses (Note 5)	2,225,494	2,446,816
Other administrative expenses	580,024	602,431
Total grants and expenses	2,805,518	3,049,247
Grants and Expenses in Excess of Realized Income (Loss)	142,970	(3,231,146)
Change in Unrealized Market Appreciation	4,779,360	6,778,453
Increase in Net Assets	4,922,330	3,547,307
Net Assets - Beginning of year	58,698,929	55,151,622
Net Assets - End of year	\$ 63,621,259	\$ 58,698,929

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2013 and 2012

Note I - Nature of Business and Significant Accounting Policies

Nature of Operations - 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 through 2008 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.

Cash - The Foundation maintains a retail checking account to pay all operational and grant expenses. In addition, at December 31, 2013 and 2012, a small amount of cash was held in the investment account that had not been reinvested as of year end.

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 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 hedge funds, multi-asset funds, private equity funds, and real estate funds, a significant amount of which is 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.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2013 and 2012

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. Excise tax expense was \$28,541 and \$33,035 for the years ended December 31, 2013 and 2012, respectively.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Foundation and recognize a tax liability if the Foundation has taken an uncertain position that more likely than not would not be sustained upon examination by the IRS or other applicable taxing authorities. Management has analyzed the tax positions taken by the Foundation and has concluded that as of December 31, 2013 and 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the financial statements. The Foundation's federal income tax returns for the years prior to December 31, 2010 are no longer subject to examination.

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 (see Note 6).

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 September 10, 2014, which is the date the financial statements were available to be issued.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2013 and 2012

Note 2 - Fair Value Measurements

Accounting standards require certain assets and liabilities 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, 2013 and 2012 and the valuation techniques used by the Foundation to determine those fair values.

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. The Foundation's Level 2 inputs include net asset values provided by the fund managers.

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 assets.

In instances whereby 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.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2013 and 2012

Note 2 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2013

	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, 2013
Money market mutual funds - Short-term investments	\$ 586,786	\$ -	\$ -	\$ 586,786
Common stock mutual funds - Domestic	15,575,759	-	-	15,575,759
Common stock mutual funds - Foreign	11,032,694	-	-	11,032,694
Fixed-income mutual funds - Domestic	10,300,233	-	-	10,300,233
Fixed-income mutual funds - Foreign	2,327,705	-	-	2,327,705
Multi-asset funds	4,124,066	3,792,739	-	7,916,805
Hedge funds	-	6,797,801	-	6,797,801
Real estate and other	1,221,259	3,610,514	-	4,831,773
Mining and natural gas rights	-	-	798,589	798,589
Private equity	-	-	3,133,635	3,133,635
Total investments	<u>\$ 45,168,502</u>	<u>\$ 14,201,054</u>	<u>\$ 3,932,224</u>	<u>\$ 63,301,780</u>

Assets Measured at Fair Value on a Recurring Basis at December 31, 2012

	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, 2012
Money market mutual funds - Short-term investments	\$ 554,250	\$ -	\$ -	\$ 554,250
Common stock mutual funds - Domestic	13,314,660	-	-	13,314,660
Common stock mutual funds - Foreign	10,729,840	-	-	10,729,840
Fixed-income mutual funds - Domestic	9,490,092	-	-	9,490,092
Fixed-income mutual funds - Foreign	2,174,550	-	-	2,174,550
Multi-asset funds	4,311,144	3,433,068	-	7,744,212
Hedge funds	-	6,269,566	-	6,269,566
Real estate and other	1,453,340	3,402,227	-	4,855,567
Mining and natural gas rights	-	-	798,589	798,589
Private equity	-	-	2,529,224	2,529,224
Total investments	<u>\$ 42,027,876</u>	<u>\$ 13,104,861</u>	<u>\$ 3,327,813</u>	<u>\$ 58,460,550</u>

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2013 and 2012

Note 2 - Fair Value Measurements (Continued)

	Fair Value at December 31, 2013	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
			Estimated projected production	\$699,393- \$2,784,174
			Speculative interest rate	16-18%
Assets - Mining and natural gas rights	\$ 798,589	Discounted cash flow	Redemption of capital rate	3%

The most significant unobservable input used in the fair value measurement of the mining and natural gas rights is the estimated projected production. The estimated projected production could change significantly at any time due to cutbacks in production, change in demand, labor strikes, quality requirements, or other changes in mine planning. Significant increases or decreases in production could result in a significantly lower or higher fair value measurement.

The following table sets forth a summary of the changes in the fair value of the Foundation's Level 3 assets for the years ended December 31, 2013 and 2012:

	Fair Value at January 1, 2013	Purchases	Sales	Total Realized and Unrealized Gains	Fair Value at December 31, 2013
Mining and natural gas rights	\$ 798,589	\$ -	\$ -	\$ -	\$ 798,589
Private equity	2,529,224	518,250	(255,104)	341,265	3,133,635
Total Level 3 assets at fair value	\$ 3,327,813	\$ 518,250	\$ (255,104)	\$ 341,265	\$ 3,932,224

	Fair Value at January 1, 2012	Purchases	Sales	Total Realized and Unrealized Gains	Fair Value at December 31, 2012
Mining and natural gas rights	\$ 798,589	\$ -	\$ -	\$ -	\$ 798,589
Private equity	1,819,813	789,500	(159,851)	79,762	2,529,224
Total Level 3 assets at fair value	\$ 2,618,402	\$ 789,500	\$ (159,851)	\$ 79,762	\$ 3,327,813

The Foundation has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include quarterly meetings with the Foundation's investment consultant for review of Level 3 investment quarterly fund manager statements, annual audited financial statements, and appraisals of the mining and natural gas rights properties. In addition, management attends the annual stockholders' meetings for the mining company in order to monitor performance. The Foundation cannot independently assess the value of these underlying positions through a public exchange or over-the-counter market; therefore, it utilizes a third-party investment manager to monitor and obtain underlying financial information on the Level 3 investments.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2013 and 2012

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 and liabilities. 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. During the years ended December 31, 2013 and 2012, there were no realized gains on Level 3 investments that have been recognized.

Multi-asset fund assets primarily consist of investments in domestic and foreign securities, U.S. Treasury bonds/notes, U.S. Treasury bills, and private investment funds. The Foundation estimates the fair value of these investments based on the net asset values provided by the fund managers at year end.

Hedge fund assets primarily consist of investments in fund 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 investment assets primarily consist of investments in real estate, commodities, and natural resource partnership funds. 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 appraisals of the underlying properties and the present value of future cash flows of mortgage receivables.

Mining and natural gas rights consist of investments in rights to mining and natural gas properties. The Foundation estimates the fair value of these investments based on appraisals of the properties using estimated projected production of the properties.

Private equity fund 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 of the investment company.

Certain investments measured at net asset value per share (or equivalent) are classified within Level 2 of the fair value hierarchy as the investment can be redeemed at or within 30 days of the measurement date. If the investment holdings cannot be redeemed at or within 30 days of the measurement date, due to redemption restrictions of other factors, then the investment is classified within Level 3 of the fair value hierarchy.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2013 and 2012

Note 2 - Fair Value Measurements (Continued)

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

Investments Held at December 31, 2013

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Multi-asset funds	\$ 3,792,739	\$ -	Quarterly	60 days
Hedge funds	6,797,801	-	Quarterly	45-60 days
Real estate and other	3,610,514	-	Monthly - Quarterly	30-60 days
Private equity	<u>3,133,635</u>	<u>2,948,875</u>	N/A	N/A
Total	<u>\$ 17,334,689</u>	<u>\$ 2,948,875</u>		

Note 3 - Lease Commitments

The Foundation entered into a lease with the Community Foundation of Southeast Michigan (CFSEM) effective December 1, 2007. The lease agreement required monthly payments ranging from \$1,331 to \$1,520 through November 30, 2012. Effective December 1, 2012, a new lease agreement was entered with CFSEM requiring monthly payments ranging from \$1,520 to \$1,600 through November 30, 2017. Total rent expense under these lease agreements was \$18,280 and \$18,240 for the years ended December 31, 2013 and 2012, 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 approximately \$36,800 and \$35,000 for the years ended December 31, 2013 and 2012, respectively.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2013 and 2012

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, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Integrated Health Care Initiative		
<i>(To integrate mental health services into primary care settings)</i>		
Adult Well-Being Services	\$ -	\$ 30,000
Detroit Community Health Connection	-	100,000
Detroit Community Health Foundation	-	100,000
Oakland Integrated Healthcare Network	-	100,000
Western Wayne Family Health Centers	-	125,000
	<hr/>	<hr/>
Total integrated health care initiative	-	455,000
Evidence-based Practices Programs		
<i>(To implement best practice treatment programs)</i>		
Adult Well-Being Services	-	100,000
American Indian Health and Family	100,000	-
Catholic Charities of Southeast Michigan	55,000	-
Detroit Central City Community Mental Health	50,000	100,000
Detroit Health Care for the Homeless, Inc.	50,000	50,000
Easter Seals-Michigan, Inc.	75,000	75,000
Jewish Family Services	62,000	-
Michigan Department of Community Health	-	200,000
Michigan State University	100,000	100,000
Neighborhood Service Organization	50,000	50,000
Regents of the University of Michigan	295,000	280,000
Southwest Counseling Solutions	100,000	100,000
St. John Providence Health System	100,000	-
Starfish Family Services, Inc.	-	75,000
Starr Commonwealth	-	50,000
Training and Treatment Innovations, Inc.	-	50,000
Wayne State University	95,000	190,000
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Total evidence-based practices programs	1,132,000	1,420,000

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2013 and 2012

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

	2013	2012
Grantmaking Opportunities		
<i>(To improve service delivery of mental health providers)</i>		
Adult Well-Being Services	\$ 50,000	\$ -
Association for Children's Mental Health	30,000	-
Corner Health Center	50,000	-
Covenant Community Care, Inc.	50,000	100,000
Covenant House Michigan	50,000	-
Detroit Central City Community Mental Health	-	50,000
Detroit Community Health Connection	100,000	-
Detroit Educational Television Foundation	25,000	-
Development Centers, Inc.	-	50,000
Ennis Center for Children, Inc.	47,000	-
Guidance Center	35,000	-
Mariners Inn	-	41,000
Mental Health Association of Michigan	60,000	50,000
Michigan Association for Infant Mental Health	82,000	-
Michigan Public Health Institute	-	15,000
National Alliance on Mental Health Michigan	10,000	10,000
National Alliance on Mental Health Metro	10,000	-
Michigan State University	-	50,000
Oakland Integrated Healthcare Network	50,000	-
Ozone House, Inc.	50,000	-
School-Community Health Alliance of Michigan	50,000	-
Starfish Family Services, Inc.	50,000	-
Washtenaw Health Plan Corporation	47,000	-
Wayne State University	147,000	-
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Total grantmaking opportunities	993,000	366,000
Matching Gifts, Evaluation and Consulting Contracts, Dues, and Contributions		
	100,494	205,816
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Total grants, contracts, and contributions	\$ 2,225,494	\$ 2,446,816

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:

	2013	2012
Payables - Outstanding grant commitments	\$ 467,000	\$ 992,000

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2013 and 2012

Note 6 - Cash to Accrual (Continued)

Included in outstanding grant commitments at December 31, 2012 is \$227,000 related to grants that were scheduled to be paid during 2012; however, payment was delayed until 2013.