

Ethel and James Flinn Foundation

**Financial Report
December 31, 2015**

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, 2015 and 2014 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, 2015 and 2014 and the changes in its net assets for the years then ended on the basis of accounting described in Note 1.

Emphasis of Matter

As explained in Note 2, the financial statements include investments of approximately \$19 million and \$20 million (approximately 30 percent and 31 percent of net assets) as of December 31, 2015 and 2014, 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.

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.

Plante & Moran, PLLC

September 12, 2016

Ethel and James Flinn Foundation

Balance Sheet Modified Cash Basis

	December 31, 2015	December 31, 2014
Assets		
Cash (Note 1)	\$ 145,454	\$ 202,761
Investments at fair value (Note 2)	<u>59,763,818</u>	<u>63,395,780</u>
Net Assets - Unrestricted	<u>\$ 59,909,272</u>	<u>\$ 63,598,541</u>

Ethel and James Flinn Foundation

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

	Year Ended	
	December 31, 2015	December 31, 2014
	(Unrestricted)	
Income		
Interest income	\$ 471,177	\$ 672,546
Dividend income	1,200,813	1,639,171
Mining royalties	167,619	65,362
Miscellaneous income	1,629	1,710
Realized (loss) gain on investments	(221,462)	1,257,102
Investment fees	(49,237)	(48,429)
Net realized income	1,570,539	3,587,462
Grants and Expenses		
Grants and grant-related expenses (Note 5)	2,662,239	2,378,029
Other administrative expenses	726,468	679,621
Total grants and expenses	3,388,707	3,057,650
Grants and Expenses in (Deficit) Excess of Realized Income	(1,818,168)	529,812
Change in Unrealized Market Appreciation	(1,871,101)	(552,530)
Decrease in Net Assets	(3,689,269)	(22,718)
Net Assets - Beginning of year	63,598,541	63,621,259
Net Assets - End of year	\$ 59,909,272	\$ 63,598,541

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2015 and 2014

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, 2015 and 2014, 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, 2015 and 2014

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 \$94,199 and \$79,593 for the years ended December 31, 2015 and 2014, respectively.

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 fair 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.

Upcoming Accounting Pronouncement - *Not-for-Profit Entities Financial Reporting Model*. The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities in August, 2016*. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules. The ASU will require changes in the way certain information is aggregated and reported by the Foundation, including required disclosures about the liquidity and availability of resources. The new standard is effective for the Foundation's year ending December 31, 2018 and thereafter and must be applied on a retrospective basis. The Foundation is currently evaluating the impact this standard will have on the financial statements.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including September 12, 2016, which is the date the financial statements were available to be issued.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2015 and 2014

Note 2 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value on 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 and liabilities measured at fair value on a recurring basis at December 31, 2015 and 2014 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. 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 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.

As of December 31, 2015, the Foundation implemented a new guidance that changes the required disclosures for investments valued at net asset value (NAV) per share (or its equivalent) as a practical expedient. Previously, investments measured at fair value using the NAV practical expedient were classified in the fair value hierarchy based on the redemption features associated with the investment. Under the new guidance, investments measured at fair value using net asset value per share (or its equivalent) as a practical expedient are no longer classified in the fair value hierarchy above and the information for 2014 has been adjusted to conform to the new disclosure requirements.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2015 and 2014

Note 2 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2015

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2015
Investments:					
Money market mutual funds - Short-term investments	\$ 844,378	\$ -	\$ -	\$ -	\$ 844,378
Common stock mutual funds - Domestic	13,532,375	-	-	-	13,532,375
Common stock mutual funds - Foreign	9,682,350	-	-	-	9,682,350
Fixed-income mutual funds - Domestic	9,822,807	-	-	-	9,822,807
Fixed-income mutual funds - Foreign	2,054,989	-	-	-	2,054,989
Multi-asset funds	4,873,558	-	-	2,472,542	7,346,100
Hedge funds	-	-	-	6,924,570	6,924,570
Real estate and other	-	-	-	4,212,823	4,212,823
Mining and natural gas rights	-	-	798,589	-	798,589
Private equity	-	-	-	4,544,837	4,544,837
Total investments	<u>\$ 40,810,457</u>	<u>\$ -</u>	<u>\$ 798,589</u>	<u>\$ 18,154,772</u>	<u>\$ 59,763,818</u>

Assets Measured at Fair Value on a Recurring Basis at December 31, 2014

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	Balance at December 31, 2014
Investments:					
Money market mutual funds - Short-term investments	\$ 366,564	\$ -	\$ -	\$ -	\$ 366,564
Common stock mutual funds - Domestic	15,492,703	-	-	-	15,492,703
Common stock mutual funds - Foreign	10,320,293	-	-	-	10,320,293
Fixed-income mutual funds - Domestic	10,358,011	-	-	-	10,358,011
Fixed-income mutual funds - Foreign	2,211,831	-	-	-	2,211,831
Multi-asset funds	4,131,810	-	-	3,742,497	7,874,307
Hedge funds	-	-	-	6,936,215	6,936,215
Real estate and other	996,583	-	-	3,878,927	4,875,510
Mining and natural gas rights	-	-	798,589	-	798,589
Private equity	-	-	-	4,161,757	4,161,757
Total investments	<u>\$ 43,877,795</u>	<u>\$ -</u>	<u>\$ 798,589</u>	<u>\$ 18,719,396</u>	<u>\$ 63,395,780</u>

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2015 and 2014

Note 2 - Fair Value Measurements (Continued)

The following tables summarize the valuation methods and inputs used to determine fair value at December 31, 2015 for assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs).

	Fair Value at December 31, 2015	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Mining and natural gas rights	\$ 798,589	Discounted cash flow	Estimated projected production	\$699,393-\$2,784,174
	-		Speculative interest rate	16-18%
	-		Redemption of capital rate	3%
	Fair Value at December 31, 2014	Valuation Technique	Significant Unobservable Inputs Used	Range (Weighted Average)
Assets - Mining and natural gas rights	\$ 798,589	Discounted cash flow	Estimated projected production	\$699,393-\$2,784,174
	-		Speculative interest rate	16-18%
	-		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 Foundation has processes in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. These processes include 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, participate in fund manager calls, and obtain underlying financial information on the Level 3 investments.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. During the years ended December 31, 2015 and 2014, there were no realized or unrealized gains on Level 3 investments that have been recognized.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2015 and 2014

Note 2 - Fair Value Measurements (Continued)

Investments in Entities that Calculate Net Asset Value per Share

The Foundation holds shares or interests in investment companies where the fair value of the investments are measured on a recurring basis using net asset value per share (or its equivalent) of the investment companies as a practical expedient.

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

	December 31,	December 31,	December 31, 2015		
	2015	2014	Unfunded	Redemption	Redemption
	Fair Value	Fair Value	Commitments	Frequency, if	Notice Period
				Eligible	
Multi-asset funds	\$ 2,472,542	\$ 3,742,497	\$ -	Quarterly	60 days
Hedge funds	6,924,570	6,936,215	-	Quarterly	45-60 days
Real estate and other	4,212,823	3,878,927	-	Monthly -	
Private equity	4,544,837	4,161,757	4,446,625	Quarterly	30-60 days
				N/A*	N/A*
Total	<u>\$ 18,154,772</u>	<u>\$ 18,719,396</u>	<u>\$ 4,446,625</u>		

* These funds are in private equity structures with no rights to redemption except under certain limited circumstances.

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 funds 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 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 mortgages receivable.

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.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2015 and 2014

Note 3 - Lease Commitments

The Foundation entered into a lease with the Community Foundation of Southeast Michigan (CFSEM) effective December 1, 2012. The lease agreement requires monthly payments ranging from \$1,520 to \$1,600 through November 30, 2017. Total rent expense under the lease agreement was \$18,760 and \$18,720 for the years ended December 31, 2015 and 2014, 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 \$37,600 and \$37,200 for the years ended December 31, 2015 and 2014, respectively.

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, 2015 and 2014:

	2015	2014
Evidence-based Practices Programs		
<i>(To implement best practice treatment programs)</i>		
Adult Well-Being Services	\$ 100,000	\$ 100,000
American Indian Health and Family	-	100,000
Catholic Charities of Southeast Michigan	-	55,000
Children's Center of Wayne County	53,000	-
Community Health and Social Services	100,000	100,000
Corner Health Center	98,000	-
Covenant Community Care, Inc.	100,000	100,000
Covenant House Michigan	62,000	-
Detroit Central City Community Mental Health	-	100,000
Hegira Programs, Inc.	60,000	60,000
Henry Ford Health System	200,000	100,000
Jewish Family Services	-	62,000
Juvenile Assessment Center	100,000	100,000
Michigan State University	-	100,000
Pediatric Foundation of Michigan	88,000	88,000
Regents of the University of Michigan	196,000	196,000
Spectrum Child and Family Services	90,000	90,000
St. John Providence Health System	-	100,000
St. Joseph Mercy Ann Arbor	100,000	-
Starfish Family Services, Inc.	56,000	56,000
The Guidance Center	88,000	88,000
Wayne State University	100,000	-
Total evidence-based practices programs	1,591,000	1,595,000

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2015 and 2014

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

	2015	2014
Grantmaking Opportunities		
<i>(To improve service delivery of mental health providers)</i>		
Arab Community Center	\$ -	\$ 50,000
Association for Children's Mental Health	35,000	10,000
CARE of Southeastern Michigan	-	47,000
Deaf Community Advocacy Network	30,000	-
Depression and Bipolar Support Alliance	45,000	-
Detroit Crime Commission	35,000	-
Detroit Wayne County Community Mental Health Authority	-	25,000
Development Centers, Inc.	-	50,000
Easter Seals-Michigan, Inc.	27,000	-
Jewish Family Service of Washtenaw County, Inc.	-	50,000
Judson Center	-	50,000
Mariners Inn	49,000	37,000
Mental Health Association of Michigan	50,000	60,000
Michigan Association for Infant Mental Health	-	10,000
Michigan's Children	50,000	-
Minds Program, Inc.	-	45,000
National Alliance on Mental Health Michigan	10,000	60,000
National Alliance on Mental Health Metro	10,000	10,000
National Alliance on Mental Health Washtenaw County	10,000	10,000
National Philanthropic Trust	10,000	20,000
Oakland Integrated Healthcare Network	-	50,000
Oakwood Health Care System Foundation	50,000	-
Pediatric Foundation of Michigan	50,000	-
Regents of the University of Michigan	100,000	-
Rose Hill Center	32,000	-
Starfish Family Services, Inc.	35,000	-
Starr Commonwealth	50,000	-
Southwest Counseling Solutions	50,000	-
University of Detroit Mercy	50,000	-
Wayne State University	65,000	50,000
Western Wayne Family Health Centers	-	50,000
William Beaumont Hospital	-	50,000
Total grantmaking opportunities	843,000	734,000
Matching Gifts, Evaluation and Consulting Contracts, Dues, and Contributions	228,239	49,029
Total grants, contracts, and contributions	<u>\$ 2,662,239</u>	<u>\$ 2,378,029</u>

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2015 and 2014

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:

	<u>2015</u>	<u>2014</u>
Payables - Outstanding grant commitments	\$ 613,000	\$ 1,078,000

Included in outstanding grant commitments at December 31, 2014 is \$100,000 related to grants that were scheduled to be paid during 2014; however, payment was delayed until 2015.