
Ethel and James Flinn Foundation

Financial Report
December 31, 2018

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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 financial statements of Ethel and James Flinn Foundation (the "Foundation"), which comprise the modified cash basis balance sheet as of December 31, 2018 and 2017 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 modified cash basis financial statements.

Management's Responsibility for the Modified Cash Basis Financial Statements

Management is responsible for the preparation and fair presentation of these modified cash basis financial statements in accordance with the modified cash basis of accounting described in Note 2; this includes determining that the modified cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of modified cash basis 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 modified cash basis 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 modified cash basis financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the modified cash basis financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the modified cash basis 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 modified cash basis 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 modified cash basis financial statements.

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

Opinion

In our opinion, the modified cash basis financial statements referred to above present fairly, in all material respects, the modified cash basis financial position of Ethel and James Flinn Foundation as of December 31, 2018 and 2017 and the changes in its net assets for the years then ended on the basis of accounting described in Note 2.

Emphasis of Matters

As described in Note 3 to the modified cash basis financial statements, the modified cash basis financial statements include investments of approximately \$14 million and \$18 million (approximately 24 percent and 28 percent of net assets) as of December 31, 2018 and 2017, 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.

To the Board of Directors
Ethel and James Flinn Foundation

As described in Note 2 to the modified cash basis financial statements, the Foundation adopted the provisions of Accounting Standards Update (ASU) No. 2016-14, *Not-For-Profit Entities (Topic 958): Presentation of Financial Statements of Not-For-Profit Entities*.

Our opinion is not modified with respect to these matters.

Basis of Accounting

As described in Note 2, these modified cash basis 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

August 8, 2019

Ethel and James Flinn Foundation

Modified Cash Basis Balance Sheet

December 31, 2018 and 2017

	2018	2017
Assets		
Assets		
Cash (Note 2)	\$ 209,874	\$ 322,271
Investments (Note 3)	60,206,315	66,062,307
Total assets	<u><u>\$ 60,416,189</u></u>	<u><u>\$ 66,384,578</u></u>
Liabilities and Net Assets		
Liabilities	\$ -	\$ -
Net Assets - Without donor restrictions	60,416,189	66,384,578
Total liabilities and net assets	<u><u>\$ 60,416,189</u></u>	<u><u>\$ 66,384,578</u></u>

Ethel and James Flinn Foundation

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

Years Ended December 31, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Changes in Net Assets without Donor Restrictions		
Investment income - Net	\$ 3,858,889	\$ 3,722,537
Grants and expenses:		
Grants and grant-related expenses (Note 8)	2,466,631	2,688,972
Other administrative expenses	<u>813,451</u>	<u>691,923</u>
Total grants and expenses	<u>3,280,082</u>	<u>3,380,895</u>
Realized Income in Excess of Grants and Expenses	578,807	341,642
Change in Unrealized Market Net Appreciation	<u>(6,547,196)</u>	<u>5,132,185</u>
(Decrease) Increase in Net Assets without Donor Restrictions	(5,968,389)	5,473,827
Net Assets - Beginning of year	<u>66,384,578</u>	<u>60,910,751</u>
Net Assets - End of year	<u><u>\$ 60,416,189</u></u>	<u><u>\$ 66,384,578</u></u>

December 31, 2018 and 2017

Note 1 - Nature of Business

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, scope, and delivery of mental health services in Michigan. The Foundation uses its resources to develop, evaluate, and implement best practice treatment programs.

Note 2 - Significant Accounting Policies

Cash

The Foundation maintains a retail checking account to pay all operational and grant expenses. In addition, at December 31, 2018 and 2017, 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 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 modified cash basis 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 and natural gas rights is carried at appraised value determined by independent third parties.

The alternative investments, composed primarily of hedge funds and limited partnerships that are not readily marketable, are measured at fair value, valued at net asset value per share as the practical expedient. The Foundation 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 may differ significantly from the values that would have been used had a ready market for these securities existed.

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 \$60,181 and \$12,893 for the years ended December 31, 2018 and 2017, respectively.

Notes to Modified Cash Basis Financial Statements

December 31, 2018 and 2017

Note 2 - Significant Accounting Policies (Continued)

Modified Cash Basis of Accounting

The Foundation's modified cash basis balance sheet and modified cash basis statement of income, expenses, and changes in net assets are presented 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 (GAAP). Under this basis, revenue other than unrealized gains and loss on investments is recognized when collected rather than earned, and expenses are recognized when paid rather than when incurred. Unrealized gains and losses on investments are reflected in the current period. Under the modified cash basis of accounting, grants payable and deferred compensation, which would be recognized under accounting principles generally accepted in the United States of America and may be material in amount, are not reflected in the accompanying financial statements. See Note 9 for the cash to accrual adjustments to comply with GAAP.

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 modified cash basis financial statements.

Adoption of New Accounting Pronouncement

As of January 1, 2018, applied retrospectively to all years presented, the Foundation adopted Accounting Standards Update No. 2016-14, *Not-for-Profit Entities*. This standard requires net assets to be classified in two categories, net assets without donor restrictions and net assets with donor restrictions, rather than the three previous classifications. This standard also requires changes in the way certain information is aggregated and reported by the Foundation, including disclosures of quantitative and qualitative information about the liquidity and availability of resources and the presentation of expenses by both functional and natural classification. This standard also requires investment expenses to be reported on the statement of activities netted against investment return and reported in the net asset category in which the net investment return is reported. The standard also clarifies the definition of management and general and prohibits certain expenses from being allocated out of management and general.

Subsequent Events

The modified cash basis financial statements and related disclosures include evaluation of events up through and including August 8, 2019, which is the date the modified cash basis financial statements were available to be issued.

Note 3 - Fair Value Measurements

Accounting standards require certain assets and liabilities be reported at fair value in the modified cash basis 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.

Notes to Modified Cash Basis Financial Statements

December 31, 2018 and 2017

Note 3 - Fair Value Measurements (Continued)

The following tables present information about the Foundation's assets measured at fair value on a recurring basis at December 31, 2018 and 2017 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.

Assets Measured at Fair Value on a Recurring Basis at December 31, 2018

	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, 2018
Investments:					
Money market mutual funds -					
Short-term investments	\$ 569,649	\$ -	\$ -	\$ -	\$ 569,649
Common stock mutual funds -					
Domestic	15,706,177	-	-	-	15,706,177
Foreign	6,562,955	-	-	-	6,562,955
Fixed-income mutual funds -					
Domestic	9,421,987	-	-	-	9,421,987
Foreign	3,942,052	-	-	-	3,942,052
Multiasset funds	5,724,780	-	-	-	5,724,780
Mining and natural gas rights	-	-	798,589	-	798,589
Hedge funds				6,547,500	6,547,500
Real estate and other				4,541,206	4,541,206
Private equity				6,391,420	6,391,420
Total investments	\$ 41,927,600	\$ -	\$ 798,589	\$ 17,480,126	\$ 60,206,315

Ethel and James Flinn Foundation

Notes to Modified Cash Basis Financial Statements

December 31, 2018 and 2017

Note 3 - Fair Value Measurements (Continued)

	Assets Measured at Fair Value on a Recurring Basis at December 31, 2017				Balance at December 31, 2017
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value	
Investments:					
Money market mutual funds - Short-term investments	\$ 498,498	\$ -	\$ -	\$ -	\$ 498,498
Common stock mutual funds - Domestic	18,877,878	-	-	-	18,877,878
Common stock mutual funds - Foreign	8,000,757	-	-	-	8,000,757
Fixed-income mutual funds - Domestic	11,303,215	-	-	-	11,303,215
Fixed-income mutual funds - Foreign	2,471,208	-	-	-	2,471,208
Multiasset funds	6,483,844	-	-	-	6,483,844
Hedge funds	-	-	-	7,049,325	7,049,325
Real estate and other	-	-	-	4,423,247	4,423,247
Mining and natural gas rights	-	-	798,589	-	798,589
Private equity	-	-	-	6,155,746	6,155,746
Total investments	\$ 47,635,400	\$ -	\$ 798,589	\$ 17,628,318	\$ 66,062,307

The following table summarizes the valuation methods and inputs used to determine fair value at December 31, 2017 and 2018 for assets measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

	Fair Value at December 31, 2018 and 2017	Valuation Technique	Unobservable Inputs	Weighted Average of Inputs
Assets - Mining and natural gas rights	\$ 798,589	Discounted cash flow	Estimated projected production Speculative interest rate Redemption of capital rate	\$699,393- \$2,784,174 16 - 18% 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. During the years ended December 31, 2018 and 2017, there were no realized or unrealized gains on Level 3 investments that have been recognized.

Ethel and James Flinn Foundation

Notes to Modified Cash Basis Financial Statements

December 31, 2018 and 2017

Note 3 - Fair Value Measurements (Continued)

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:

	December 31, 2018	December 31, 2017	December 31, 2018		
	Fair Value	Fair Value	Unfunded Commitments	Redemption Frequency, if Eligible	Redemption Notice Period
Hedge funds	\$ 6,547,500	\$ 7,049,325	\$ -	Quarterly	45 - 60 days
Real estate funds and other	4,541,206	4,423,247	-	Monthly - Quarterly	30 - 60 days
Private equity fund	6,391,420	6,155,746	2,877,881	N/A*	N/A*
Total	\$ 17,480,126	\$ 17,628,318	\$ 2,877,881		

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

Hedge fund 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 mortgage 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

Note 4 - Functional Allocation of Expenses

The functional allocation of expenses for 2018 is as follows:

	Program Services	Support Services	Total
Grants	\$ 2,465,255	\$ 1,376	\$ 2,466,631
Salaries and benefits	306,738	224,002	530,740
Legal, accounting, and professional fees	9,264	36,867	46,131
Taxes	34,781	28,097	62,878
Other administrative expenses	64,519	109,183	173,702
Total	\$ 2,880,557	\$ 399,525	\$ 3,280,082

Ethel and James Flinn Foundation

Notes to Modified Cash Basis Financial Statements

December 31, 2018 and 2017

Note 4 - Functional Allocation of Expenses (Continued)

The functional allocation of expenses for 2017 is as follows:

	Program Services	Support Services	Total
Grants	\$ 2,688,844	\$ 128	\$ 2,688,972
Salaries and benefits	298,413	217,893	516,306
Legal, accounting, and professional fees	11,862	36,085	47,947
Taxes	7,452	8,298	15,750
Other administrative expenses	64,814	47,106	111,920
Total	<u>\$ 3,071,385</u>	<u>\$ 309,510</u>	<u>\$ 3,380,895</u>

Salaries and related expenses are allocated on the basis of time and effort. Expenses deemed to be indirect to employee work, such as professional services, insurance, and supplies, are considered to be all management and general expenses. Other expenses utilized by all employees, such as occupancy, utilities, and training, are also allocated on the basis of time and effort. Costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different amounts.

Note 5 - Liquidity and Availability of Financial Resources

The following reflects the Foundation's financial assets as of the modified cash basis balance sheet date, reduced by amounts not available for general use because of contractual restrictions within one year of the modified cash basis balance sheet date:

	2018	2017
Cash	\$ 209,874	\$ 322,271
Investments	<u>60,206,315</u>	<u>66,062,307</u>
Financial assets - At year end	60,416,189	66,384,578
Less those unavailable for general expenditures within one year due to - Investment redemption restrictions	<u>6,391,420</u>	<u>6,155,746</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 54,024,769</u>	<u>\$ 60,228,832</u>

The Foundation has a goal to maintain financial assets, which consist of cash and short-term investments, on hand to meet normal operating expenses. None of these financial assets are subject to donor or other contractual restrictions that make them unavailable for general expenditure within one year of the modified cash basis balance sheet date. The Foundation has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Foundation also realizes there could be unanticipated liquidity needs.

Notes to Modified Cash Basis Financial Statements

December 31, 2018 and 2017

Note 6 - Lease Commitments

The Foundation entered into a lease with the Community Foundation for Southeast Michigan (CFSEM) effective December 1, 2012. The lease agreement required monthly payments ranging from \$1,520 to \$1,600 through November 30, 2017. After the expiration of the lease agreement, the lease continued on a month-to-month basis until a new agreement for new space was executed and effective June 1, 2018. The new agreement requires monthly payments ranging from \$3,100 to \$3,520 through April 2023 with the option for CFSEM and the Foundation to renew for one-year periods each year thereafter. The total rent expense under this lease was \$29,066 and \$19,200 for the years ended December 31, 2018 and 2017, respectively.

Future minimum lease rental payments under the agreement are as follows:

<u>Years Ending December 31</u>	<u>Amount</u>
2019	\$ 36,835
2020	36,904
2021	36,973
2022	40,499
2023	<u>14,086</u>
Total	<u>\$ 165,297</u>

Note 7 - Employee Benefit Plan

The Foundation sponsors a qualified 403(b) defined contribution plan for all of its employees. Total contributions to the plan were approximately \$41,900 and \$40,700 for the years ended December 31, 2018 and 2017, respectively.

The Foundation also sponsors a Section 457(b) plan effective January 1, 2017 to provide retirement benefits to the executive director. Contributions are discretionary, and no contributions were made during 2018 or 2017.

Ethel and James Flinn Foundation

Notes to Modified Cash Basis Financial Statements

December 31, 2018 and 2017

Note 8 - Schedule of Grants, Contracts, and Contributions

The Foundation is a private foundation that 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, 2018 and 2017:

	2018	2017
Evidence-based Practices Programs		
(To implement best practice treatment programs)		
Children's Center of Wayne County	\$ -	\$ 75,000
Christ Child Society of Detroit	-	75,000
City Connect, Inc.	100,000	100,000
Covenant Community Care, Inc.	100,000	-
Covenant House Michigan	100,000	-
Detroit Wayne County Mental Health Authority	100,000	75,000
Ennis Center for Children, Inc.	-	70,000
Freedom House Detroit	50,000	-
Hegira Programs, Inc.	-	81,000
Henry Ford Health System	196,000	271,000
Judson Center	150,000	75,000
Northeast Guidance Center	100,000	-
Oakland Family Services	-	50,000
Pediatric Foundation of Michigan	60,000	60,000
Regents of the University of Michigan	225,000	225,000
Samaritas Foundation	56,000	-
Spectrum Juvenile Justice Services	58,000	58,000
St. Joseph Mercy Ann Arbor	75,000	175,000
Starfish Family Services, Inc.	66,000	136,000
Starr Commonwealth	74,000	-
Trinity Health - Michigan	75,000	-
Wayne County Third Circuit Court	75,000	-
Wayne State University	65,000	65,000
	<u>1,725,000</u>	<u>1,591,000</u>
Grantmaking Opportunities		
(To improve service delivery of mental health providers)		
Adult Well-Being Services	-	50,000
Association for Children's Mental Health	10,000	10,000
C-Assist	35,000	-
Common Ground	50,000	-
Community Foundation for Southeast Michigan	75,000	-
Covenant Community Care, Inc.	-	50,000
Hegira Programs	49,000	-
Henry Ford Health System	43,000	-
Islamic Institute of Knowledge	10,000	-
Juvenile Assessment Center	-	50,000
LAHC - Leaders Advancing and Helping Communities	-	50,000
Luella Hannan Memorial Foundation	-	50,000
Macomb County Community Mental Health	-	25,000
Mariners Inn	-	30,000
Mental Health Association in Michigan	40,000	60,000
Michigan's Children	50,000	50,000
National Alliance on Mental Health Michigan	30,000	50,000
National Alliance on Mental Health Metro	10,000	10,000
National Alliance on Mental Health Washtenaw County	10,000	10,000
Oakland County Community Mental Health	-	15,000
Oakland Family Services	50,000	-
Regents of the University of Michigan	150,000	250,000
Rose Hill Center	30,000	-
Spectrum Child and Family Services	37,000	-
	<u>679,000</u>	<u>760,000</u>
Matching Gifts, Evaluation and Consulting Contracts, Dues, and Contributions	<u>62,631</u>	<u>337,972</u>
Total grants, contracts, and contributions	<u>\$ 2,466,631</u>	<u>\$ 2,688,972</u>

Notes to Modified Cash Basis Financial Statements

December 31, 2018 and 2017

Note 9 - 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>2018</u>		<u>2017</u>
Payables - Outstanding grant commitments	\$ 905,000	\$	820,000
Deferred compensation liability - Retiree health reimbursement account	61,000		61,000