

Ethel and James Flinn Foundation

**Financial Report
December 31, 2014**

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, 2014 and 2013 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 I; 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, 2014 and 2013 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 \$20 million and \$18 million (approximately 31 percent and 29 percent of net assets) as of December 31, 2014 and 2013, 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 & Morse, PLLC

September 10, 2015

Ethel and James Flinn Foundation

Balance Sheet Modified Cash Basis

| | December 31, 2014 | December 31, 2013 |
|------------------------------------|-----------------------------|-----------------------------|
| Assets | | |
| Cash (Note 1) | \$ 202,761 | \$ 319,479 |
| Investments at fair value (Note 2) | <u>63,395,780</u> | <u>63,301,780</u> |
| Net Assets - Unrestricted | <u>\$ 63,598,541</u> | <u>\$ 63,621,259</u> |

Ethel and James Flinn Foundation

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

| | Year Ended | |
|---|----------------------|----------------------|
| | December 31, 2014 | December 31, 2013 |
| | (Unrestricted) | |
| Income | | |
| Interest income | \$ 672,546 | \$ 665,520 |
| Dividend income | 1,639,171 | 1,382,354 |
| Mining royalties | 65,362 | 159,149 |
| Miscellaneous income | 1,710 | 1,037 |
| Realized gain on investments | 1,257,102 | 786,029 |
| Investment fees | (48,429) | (45,601) |
| Net realized income | 3,587,462 | 2,948,488 |
| Grants and Expenses | | |
| Grants and grant-related expenses (Note 5) | 2,378,029 | 2,225,494 |
| Other administrative expenses | 679,621 | 580,024 |
| Total grants and expenses | 3,057,650 | 2,805,518 |
| Grants and Expenses in Excess of Realized Income | 529,812 | 142,970 |
| Change in Unrealized Market Appreciation | (552,530) | 4,779,360 |
| (Decrease) Increase in Net Assets | (22,718) | 4,922,330 |
| Net Assets - Beginning of year | 63,621,259 | 58,698,929 |
| Net Assets - End of year | \$ 63,598,541 | \$ 63,621,259 |

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2014 and 2013

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, 2014 and 2013, 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, 2014 and 2013

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 \$79,593 and \$28,541 for the years ended December 31, 2014 and 2013, 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, 2014 and 2013, 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, 2011 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 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.

Subsequent Events - The financial statements and related disclosures include evaluation of events up through and including September 10, 2015, which is the date the financial statements were available to be issued.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2014 and 2013

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, 2014 and 2013 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, 2014 and 2013

Note 2 - Fair Value Measurements (Continued)

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) | 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 | - | 3,620,428 | 3,315,787 | 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>\$ 11,241,852</u> | <u>\$ 8,276,133</u> | <u>\$ 63,395,780</u> |

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 |
|---|--|--|--|------------------------------------|
| Investments: | | | | |
| 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> |

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2014 and 2013

Note 2 - Fair Value Measurements (Continued)

The following table summarizes the valuation methods and inputs used to determine fair value at December 31, 2014 for assets and liabilities measured at fair value on a recurring basis using unobservable inputs (Level 3 inputs):

| | 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 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, 2014 and 2013:

| | Fair Value at January 1, 2014 | Purchases | Sales | Total Realized and Unrealized Gains | Fair Value at December 31, 2014 |
|------------------------------------|----------------------------------|--------------|--------------|---|---------------------------------------|
| Hedge funds | \$ - | \$ 3,300,000 | \$ - | \$ 15,787 | \$ 3,315,787 |
| Mining and natural gas rights | 798,589 | - | - | - | 798,589 |
| Private equity | 3,133,635 | 705,750 | (521,459) | 843,831 | 4,161,757 |
| Total level 3 assets at fair value | \$ 3,932,224 | \$ 4,005,750 | \$ (521,459) | \$ 859,618 | \$ 8,276,133 |

| | 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 |

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2014 and 2013

Note 2 - Fair Value Measurements (Continued)

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.

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, 2014 and 2013, there were no realized gains on Level 3 investments that have been recognized.

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 or other factors, then the investment is classified within Level 3 of the fair value hierarchy.

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

Investments Held at December 31, 2014

| | Fair Value | Unfunded Commitments | Redemption Frequency, if Eligible | Redemption Notice Period |
|-----------------------|----------------------|----------------------|-----------------------------------|--------------------------|
| Multi-asset funds | \$ 3,742,497 | \$ - | Quarterly | 60 days |
| Hedge funds | 6,936,215 | - | Quarterly | 45-60 days |
| Real estate and other | 4,677,516 | - | Monthly - Quarterly | 30-60 days |
| Private equity | 4,161,757 | 4,249,250 | N/A* | N/A* |
| Total | <u>\$ 19,517,985</u> | <u>\$ 4,249,250</u> | | |

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2014 and 2013

Note 2 - Fair Value Measurements (Continued)

- * 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 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.

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 \$18,720 and \$18,280 for the years ended December 31, 2014 and 2013, 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 \$37,200 and \$36,800 for the years ended December 31, 2014 and 2013, respectively.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2014 and 2013

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, 2014 and 2013:

| | <u>2014</u> | <u>2013</u> |
|--|------------------|------------------|
| 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 | 100,000 |
| Catholic Charities of Southeast Michigan | 55,000 | 55,000 |
| Community Health and Social Services | 100,000 | - |
| Covenant Community Care, Inc. | 100,000 | - |
| Detroit Central City Community Mental Health | 100,000 | 50,000 |
| Detroit Health Care for the Homeless, Inc. | - | 50,000 |
| Easter Seals-Michigan, Inc. | - | 75,000 |
| Hegira Programs, Inc. | 60,000 | - |
| Henry Ford Health System | 100,000 | - |
| Jewish Family Services | 62,000 | 62,000 |
| Juvenile Assessment Center | 100,000 | - |
| Michigan State University | 100,000 | 100,000 |
| Neighborhood Service Organization | - | 50,000 |
| Pediatric Foundation of Michigan | 88,000 | - |
| Regents of the University of Michigan | 196,000 | 295,000 |
| Southwest Counseling Solutions | - | 100,000 |
| Spectrum Child and Family Services | 90,000 | - |
| St. John Providence Health System | 100,000 | 100,000 |
| Starfish Family Services, Inc. | 56,000 | - |
| The Guidance Center | 88,000 | - |
| Wayne State University | - | 95,000 |
| | <u>1,595,000</u> | <u>1,132,000</u> |
| Total evidence-based practices programs | 1,595,000 | 1,132,000 |

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2014 and 2013

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

| | 2014 | 2013 |
|---|---------------------|---------------------|
| Grantmaking Opportunities | | |
| <i>(To improve service delivery of mental health providers)</i> | | |
| Adult Well-Being Services | \$ - | \$ 50,000 |
| Arab Community Center | 50,000 | - |
| Association for Children's Mental Health | 10,000 | 30,000 |
| CARE of Southeastern Michigan | 47,000 | - |
| Corner Health Center | - | 50,000 |
| Covenant Community Care, Inc. | - | 50,000 |
| Covenant House Michigan | - | 50,000 |
| Detroit Community Health Connection | - | 100,000 |
| Detroit Educational Television Foundation | - | 25,000 |
| Detroit Wayne County Community Mental Health Authority | 25,000 | - |
| Development Centers, Inc. | 50,000 | - |
| Ennis Center for Children, Inc. | - | 47,000 |
| The Guidance Center | - | 35,000 |
| Jewish Family Service of Washtenaw County, Inc. | 50,000 | - |
| Judson Center | 50,000 | - |
| Mariners Inn | 37,000 | - |
| Mental Health Association of Michigan | 60,000 | 60,000 |
| Michigan Association for Infant Mental Health | 10,000 | 82,000 |
| Minds Program, Inc. | 45,000 | - |
| National Alliance on Mental Health Michigan | 60,000 | 10,000 |
| National Alliance on Mental Health Metro | 10,000 | 10,000 |
| National Alliance on Mental Health Washtenaw County | 10,000 | - |
| National Philanthropic Trust | 20,000 | - |
| Oakland Integrated Healthcare Network | 50,000 | 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 | 50,000 | 147,000 |
| Western Wayne Family Health Centers | 50,000 | - |
| William Beaumont Hospital | 50,000 | - |
| Total grantmaking opportunities | 734,000 | 993,000 |
| Matching Gifts, Evaluation and Consulting Contracts, Dues, and Contributions | 49,029 | 100,494 |
| Total grants, contracts, and contributions | <u>\$ 2,378,029</u> | <u>\$ 2,225,494</u> |

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2014 and 2013

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>2014</u> | <u>2013</u> |
|--|--------------|-------------|
| Payables - Outstanding grant commitments | \$ 1,078,000 | \$ 467,000 |

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.