

Ethel and James Flinn Foundation

Financial Report
December 31, 2011

Ethel and James Flinn Foundation

Contents

Report Letter	1
Financial Statements - Modified Cash Basis	
Balance Sheet	2
Statement of Income, Expenses, and Changes in Net Assets	3
Notes to Financial Statements	4-12

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 the Ethel and James Flinn Foundation (the "Foundation") as of December 31, 2011 and 2010 and the related modified cash basis statement of income, expenses, and changes in net assets for the years then ended. These financial statements are the responsibility of the Foundation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ethel and James Flinn Foundation at December 31, 2011 and 2010 and the changes in its net assets for the years then ended, on the basis of accounting described in Note 1.

As explained in Note 2, the financial statements include investments valued at approximately \$19 million and \$19 million (approximately 34 and 32 percent of net assets) as of December 31, 2011 and 2010, 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

August 24, 2012

Ethel and James Flinn Foundation

Balance Sheet Modified Cash Basis

	December 31, 2011	December 31, 2010
Assets		
Cash (Note 1)	\$ 149,506	\$ 395,787
Investments at fair value (Note 2)	55,002,116	59,246,225
Total assets	<u>\$ 55,151,622</u>	<u>\$ 59,642,012</u>
Net Assets - Unrestricted	<u>\$ 55,151,622</u>	<u>\$ 59,642,012</u>

Ethel and James Flinn Foundation

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

	Year Ended	
	December 31, 2011	December 31, 2010
	(Unrestricted)	
Income		
Interest income	\$ 551,007	\$ 585,053
Dividend income	535,393	544,859
Mining royalties	126,611	118,443
Miscellaneous income	123,921	7,306
Realized gain (loss) on investments	186,498	(1,062,644)
Investment fees	(27,107)	(19,362)
	<u>1,496,323</u>	<u>173,655</u>
Net realized income		
	1,496,323	173,655
Grants and Expenses		
Grants and grant related expenses (Note 5)	2,596,442	1,975,686
Other administrative expense	560,519	588,506
	<u>3,156,961</u>	<u>2,564,192</u>
Total grants and expenses		
	3,156,961	2,564,192
Grants and Expenses in Excess of Realized Income	(1,660,638)	(2,390,537)
Change in Unrealized Market Appreciation	(2,829,752)	6,663,778
(Decrease) Increase in Net Assets	(4,490,390)	4,273,241
Net Assets - Beginning of year	59,642,012	55,368,771
Net Assets - End of year	<u>\$ 55,151,622</u>	<u>\$ 59,642,012</u>

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2011 and 2010

Note 1 - Nature of Business and Significant Accounting Policies

Nature of Operations - The 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, 2011, 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 market 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 are 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.

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 \$7,224 and \$65,393 for the years ended December 31, 2011 and 2010, respectively.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2011 and 2010

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

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, 2011 and 2010, 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, 2008 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 August 24, 2012, which is the date the financial statements were available to be issued.

Note 2 - Fair Value Measurements

Accounting standards require certain assets 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, 2011 and 2010 and the valuation techniques used by the Foundation to determine those fair values.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2011 and 2010

Note 2 - Fair Value Measurements (Continued)

In general, 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 where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Foundation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

The Foundation's policy is to recognize transfers in and transfers out of Level 1, 2, and 3 fair value classifications as of the actual date of the event of change in circumstances that caused the transfer. There were no transfers during the years ended December 31, 2011 and 2010.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2011 and 2010

Note 2 - Fair Value Measurements (Continued)

Assets Measured at Fair Value on a Recurring Basis at December 31, 2011

	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, 2011
Money market mutual funds - Short-term investments	\$ 516,164	\$ -	\$ -	\$ 516,164
Common stock mutual funds - Domestic	10,893,781	-	-	10,893,781
Common stock mutual funds - Foreign	9,134,170	-	-	9,134,170
Fixed-income mutual funds - Domestic	6,409,405	-	-	6,409,405
Fixed-income mutual funds - Foreign	2,509,097	-	-	2,509,097
Multi-asset funds	993,255	4,429,871	-	5,423,126
Hedge funds	2,430,219	-	6,985,575	9,415,794
Real estate and other	3,251,714	1,615,442	4,013,610	8,880,766
Private equity	-	-	1,819,813	1,819,813
Total	<u>\$ 36,137,805</u>	<u>\$ 6,045,313</u>	<u>\$ 12,818,998</u>	<u>\$ 55,002,116</u>

Assets Measured at Fair Value on a Recurring Basis at December 31, 2010

	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, 2010
Money market mutual funds - Short-term investments	\$ 453,797	\$ -	\$ -	\$ 453,797
Common stock mutual funds - Domestic	12,645,550	-	-	12,645,550
Common stock mutual funds - Foreign	11,144,637	-	-	11,144,637
Fixed-income mutual funds - Domestic	7,671,418	-	-	7,671,418
Fixed-income mutual funds - Foreign	2,554,145	-	-	2,554,145
Multi-asset funds	2,596,866	5,306,087	-	7,902,953
Hedge funds	1,348,532	-	7,133,145	8,481,677
Real estate and other	1,638,569	1,831,374	3,855,424	7,325,367
Private equity	-	-	1,066,681	1,066,681
Total	<u>\$ 40,053,514</u>	<u>\$ 7,137,461</u>	<u>\$ 12,055,250</u>	<u>\$ 59,246,225</u>

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2011 and 2010

Note 2 - Fair Value Measurements (Continued)

The following tables set forth a summary of the changes in the fair value of the Foundation's Level 3 assets for the years ended December 31, 2011 and 2010:

	Fair Value at January 1, 2011	Purchases	Sales	Total Realized and Unrealized Gains (Losses)	Fair Value at December 31, 2011
Hedge funds	\$ 7,133,145	\$ -	\$ -	\$ (147,570)	\$ 6,985,575
Real estate and other	3,855,424	-	-	158,186	4,013,610
Private Equity	1,066,681	734,000	(73,018)	92,150	1,819,813
Total Level 3 assets at fair value	<u>\$ 12,055,250</u>	<u>\$ 734,000</u>	<u>\$ (73,018)</u>	<u>\$ 102,766</u>	<u>\$ 12,818,998</u>

	Fair Value at January 1, 2010	Purchases	Sales	Total Realized and Unrealized Gains	Fair Value at December 31, 2010
Hedge funds	\$ 6,631,630	\$ -	\$ -	\$ 501,515	\$ 7,133,145
Real estate and other	3,542,482	-	(4,153)	317,095	3,855,424
Private equity	540,007	430,614	-	96,060	1,066,681
Total Level 3 assets at fair value	<u>\$ 10,714,119</u>	<u>\$ 430,614</u>	<u>\$ (4,153)</u>	<u>\$ 914,670</u>	<u>\$ 12,055,250</u>

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. 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 year ended December 31, 2011, there was a realized loss of \$36,860 on Level 3 investments that has been recognized as a decrease in net assets in the statement of activities and changes in net assets. During the year ended December 31, 2010, there were no realized gains or losses on Level 3 investments.

Hedge funds categorized as Level 3 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 investments categorized as Level 3 assets primarily consist of investment in a real estate partnership fund. The Foundation estimates the fair value of these investments based on the net asset value provided by the fund manager at year end. The net asset value is based on appraisal of the underlying properties and the present value of future cash flows of mortgage receivables.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2011 and 2010

Note 2 - Fair Value Measurements (Continued)

Private equity funds categorized as Level 3 assets primarily consist of investments in partnerships. The Foundation estimates the fair value of these investments based on net asset values received monthly from the partnerships as well as audited financial statements.

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:

Investments Held at December 31, 2011

	<u>Fair Value</u>	<u>Unfunded Commitments</u>	<u>Redemption Frequency, if Eligible</u>	<u>Redemption Notice Period</u>
Multi-asset funds	\$ 4,429,871	\$ -	Quarterly	60 days
Hedge funds	6,985,575	-	Quarterly	45-60 days
Real estate and other	5,629,052	-	Monthly-Quarterly	30-60 days
Private equity	<u>1,819,813</u>	4,176,125	Quarterly	60 days
Total	<u>\$ 18,864,311</u>			

Note 3 - Lease Commitments

The Foundation entered into a lease with the Community Foundation of Southeast Michigan, effective December 1, 2007. The lease agreement requires monthly payments ranging from \$1,331 to \$1,520 through November 30, 2012. Total rent expense under this lease was \$17,811 and \$17,772 for the years ended December 31, 2011 and 2010, 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 \$33,300 and \$31,500 for the years ended December 31, 2011 and 2010, respectively.

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2011 and 2010

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, 2011 and 2010:

	<u>2011</u>	<u>2010</u>
Integrated Health Care Initiative		
<i>(To integrate mental health services into primary care settings)</i>		
Adult Well-Being Services	\$ 25,000	\$ 25,000
Children's Hospital of Michigan	100,000	125,000
Detroit Community Health Connection	100,000	-
Detroit Community Health Foundation	100,000	-
Henry Ford Health System	100,000	175,000
Oakland Primary Health Services	150,000	-
Sinai Hospital of Greater Detroit	-	150,000
St. Joseph Mercy Oakland	-	150,000
Washtenaw Community Health Organization	-	223,000
Wayne State University - Department of Internal Medicine	-	150,000
Western Wayne Family Health Centers	125,000	-
Total integrated health care initiative	\$ 700,000	\$ 998,000
Evidence-Based Practices Programs		
<i>(To implement best practice treatment programs)</i>		
Adult Well-Being Services	100,000	-
Detroit Central City Community Mental Health	100,000	-
Michigan Department of Community Health	200,000	-
Regents of the University of Michigan	85,000	-
Regents of the University of Michigan (grant return)	-	(5,747)
Rose Hill Center (grant return)	-	(1,813)
Starrfish Family Services	75,000	-
Star Common Wealth	50,000	-
Training and Treatment Innovations, Inc.	50,000	-
Wayne State University	100,000	-
Wayne State University (grant return)	-	(1,172)
Total evidence-based practices programs	\$ 760,000	\$ (8,732)

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2011 and 2010

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

	2011	2010
Grantmaking Opportunities		
<i>(To improve service delivery of mental health providers)</i>		
Association for Children's Mental Health	\$ 10,000	\$ -
Children's Hospital of Michigan	-	49,000
Community Care Services	-	50,000
Covenant Community Care, Inc.	50,000	-
Detroit Central City Community Mental Health	-	35,000
Detroit Community Health Connection	9,000	-
Detroit Educational Television Foundation	25,000	-
Detroit Health Care for the Homeless, Inc.	50,000	-
Detroit Science Center	-	75,000
Detroit Wayne County Health Authority	54,000	85,000
Detroit Youth Foundation	48,000	-
Ennis Center for Children, Inc.	40,000	-
Goodwill Industries of Greater Detroit	25,000	-
Henry Ford Health System	-	30,000
Holy Cross Children's Services	30,000	-
Judson Center	30,000	-
Kadima Jewish Support Services	-	50,000
Mariners Inn	48,000	-
Mental Health Association of Michigan	60,000	50,000
Michigan State University	-	35,000
National Alliance on Mental Health Michigan	10,000	-
New Passages	-	20,000
Regents of the University of Michigan	50,000	40,000
Rose Hill Center	-	20,000
Southwest Counseling Solutions	50,000	-
St. Joseph Mercy Oakland	50,000	-
University of Detroit Mercy	-	25,000
Wayne State University	50,000	78,000
William Beaumont Hospital	-	25,000
Total grantmaking opportunities	\$ 689,000	\$ 667,000
Matching Gifts, Evaluation and Consulting Contracts, Dues, and Contributions	447,442	319,418
Total grants, contracts, and contributions	<u>\$ 2,596,442</u>	<u>\$ 1,975,686</u>

Ethel and James Flinn Foundation

Notes to Financial Statements December 31, 2011 and 2010

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:

	2011	2010
Receivables - Investment income	\$ 4,750	\$ 66,651
Payables - Outstanding grant commitments	985,000	905,000

Included in outstanding grant commitments at December 31, 2010 is \$375,000 related to three grants that were scheduled to be paid during 2010; however, payment was delayed until 2011.