

the big picture



ENVISIONING
THE FUTURE
OF ARIZONA

FLINN FOUNDATION

OUTLOOK 2010-11

ANNUAL FINANCIAL HIGHLIGHTS 2009





An era is ending in Arizona. Following decades of easy growth that routinely outpaced the nation, our state now faces complex challenges on many fronts, with no assurance that we will emerge from them stronger. How Arizona responds to these problems will determine the state

it becomes in its second century. The way forward centers on intensively cultivating the knowledge-based economy's most precious resource: human talent. We must identify and nurture leaders in many fields whose insight and stewardship will strengthen our state for future generations. A new era is about to begin.

The Big Picture

MEETING THE CHALLENGES
OF THE NEW ARIZONA



WHEN considering the wrenching disruptions that Arizona has endured over the past two years, and the transformation that our state is experiencing, I find my thoughts often turn to the lived examples of Dr. Robert and Irene Flinn.

The philanthropists who created the Flinn Foundation came to Arizona separately, but for the same reason: the weather. In Dr. Flinn's case, the Southwest's arid climate kept in check his father's tuberculosis, which would have killed him had their family remained in Nova Scotia. Irene arrived 42 years later with her first husband, who found that the mild winters of the desert eased some of the ailments that had so burdened him in New York.

In such experiences, the Flinns were like many other Arizonans who moved here from distant parts, in territorial days and throughout this first century

of our statehood. Like the Flinns, these were people drawn by the chance for better lives than what they had known elsewhere — lives that were healthier, freer, defined less by obstacles than by opportunities. This is certainly the Arizona I found when arriving in Tucson in 1963.

Responsibility for Arizona

Dr. and Mrs. Flinn lived well in the Arizona of opportunity, and they had a great sense of personal responsibility for our state. That sentiment was translated into action most publicly through the foundation they established in 1965 to improve Arizonans' quality of life. Unquestionably, it has done so, especially in Dr. Flinn's professional arena, health care and research.

The Flinn Foundation has supported biomedical research, provided health and social services to vulnerable populations, bolstered health care in rural hospitals, and molded Arizona's residency programs for new doctors. It sponsored policy

studies that laid the groundwork for Arizona's Medicaid agency, the state's health-insurance program for low-income children, and the Phoenix campus of the University of Arizona College of Medicine. In the arts, the Foundation enhanced the capacity and fiscal viability of Arizona's principal performing- and visual-arts organizations, and in education, the still-thriving Flinn Scholars Program has helped Arizona's universities become much more competitive in recruiting top undergraduates.

The Foundation's emphasis since 2002 on strengthening the state's bioscience sector has also been motivated by our mission of improving the quality of life in Arizona. New therapeutics and technologies born from bioscience research here are often available first to Arizona patients. The bioscience firms and institutions created in recent years are adding employees quickly, paying excellent wages, and contributing significant tax dollars to local and state treasuries. Our commitment to support bold collaborations in areas of strategic importance, such as personalized molecular diagnostics, is yielding impressive and promising results.

Nevertheless, these accomplishments in pursuit of the Foundation's mission are threatened by post-recessionary challenges of daunting magnitude that are confounding Arizona.

Stark challenges, budding opportunity

The Great Recession has hit Arizona harder than nearly any other state. Population growth, the housing market, and employment remain exceptionally weak, and our poverty rate has risen to among the highest in the nation. Meanwhile, even after two years of sharp spending cuts, our state budget still features a profound structural deficit. Coupled with continuing, rancorous debate over social policy, this fiscal instability has left public confidence in our civic institutions at a low ebb.

Quite simply, looking at the big picture, Arizona possesses greater opportunity today than ever before.

Arizona will face stark constraints as it emerges from the Great Recession, but within these limits resides a unique chance to make a Great Restart. This is Arizona's chance to decide what kind of state it will be as its centennial arrives in 2012. We know that the resumption of growth will in part stem from the inherited assets that attracted people like Dr. and Mrs. Flinn, but we know equally well that we are unlikely to see another era of population growth so rapid that by itself it will sustain our economy. Instead, whether Arizona prospers

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or flounders will depend largely on the role the state chooses to play in the knowledge-based global economy. Will we primarily be creators of new ideas and innovations, or merely consumers of them? Indeed, momentous decision-making responsibility immediately awaits Arizona's leaders.

At the Flinn Foundation, we are following Dr. and Mrs. Flinn's example of exercising responsibility for our state. Today, fulfilling our mission of improving the quality of life in Arizona to benefit future generations means ensuring that our grantmaking and programmatic activities aid in Arizona's transformation. To that end, our board of directors has initiated a strategic review period, examining how we can best leverage the Foundation's resources and the collaborative strength of Arizona's philanthropic sector through our principal program areas: the biosciences, the arts, and the Flinn Scholars.

We know already that we will sustain our commitment in all three of these program areas, and we know that soon, as some grant obligations conclude, we will have the flexibility to support carefully selected new projects.

Building human capital

As we refine our strategy for the next several years, we anticipate that we will sustain a strong emphasis on investments in human capital. In an area like the Flinn Scholars, this has for 25 years been a fundamental approach we have taken toward strengthening Arizona's universities and its corps of future leaders. In the biosciences, this strategy reflects in part the progress our partners throughout the state have made since 2002 on implementing *Arizona's Bioscience Roadmap*. Advances in research infrastructure have been extraordinary, and aggressive efforts to spur commercialization are underway. We are in a position now to help ensure that the right talent is present in Arizona to support the success of the most broadly impactful endeavors.

Investing in human capital is also at the heart of the new civic-leadership initiative we are supporting in partnership with the Thomas R. Brown Foundations of Tucson. After nearly a year of study and planning, the Arizona Center for Civic Leadership has begun operations. Its cornerstone program, the Flinn-Brown Civic Leadership Academy, is in the process of selecting its first cohort of emerging Arizona leaders. These are individuals whom the Academy believes will have the capacity to help solve the long-term challenges that have contributed to Arizona's



Fulfilling the mission of the Flinn Foundation means ensuring that our grantmaking and programmatic activities aid in Arizona's transformation.

In order to truly make a difference, the philanthropic sector must do more than provide funding.

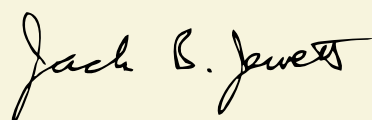
current position. These are individuals inspired by and committed to the notion of public service for the betterment of others, and able to make fact-driven, nonpartisan decisions that serve the common good.

In designing the Arizona Center for Civic Leadership, we have drawn important lessons from our work to strengthen the biosciences. Chief among these is the conviction that in order to truly make a difference, the philanthropic sector must do more than provide funding. Our assets also include our reputation for objectivity and long-term vision, and our capacity to foster multi-institution efforts to achieve shared goals. This new leadership initiative will succeed to the extent that it can partner with other existing Arizona leadership organizations in their work, unite our efforts to improve our state as a whole, and foster effective dialogue with the public and current civic leaders.

Renewing Arizona's promise

Internally, we have sometimes described our actions under this approach as "Flinn's Five Cs": convene, collaborate, catalyze, communicate, and consensus-build. The suggestion is that today, such actions are essential complements to those historical economic pillars – copper, cattle, cotton, citrus, and climate – on which our state was built, but on which it can no longer depend. These actions are hardly the property of the Flinn Foundation, though; arguably, Arizona's future prosperity depends on them becoming habitual tactics for all of us.

The adversity that Arizona has weathered has not diminished the Foundation's high hopes for our state's second century. Adversity can help clarify the decisions that lie before us, and indeed can help move us toward difficult but responsible action that renews our promise of opportunity. The Foundation believes that Arizona is ready for this moment. And we stand ready to help.

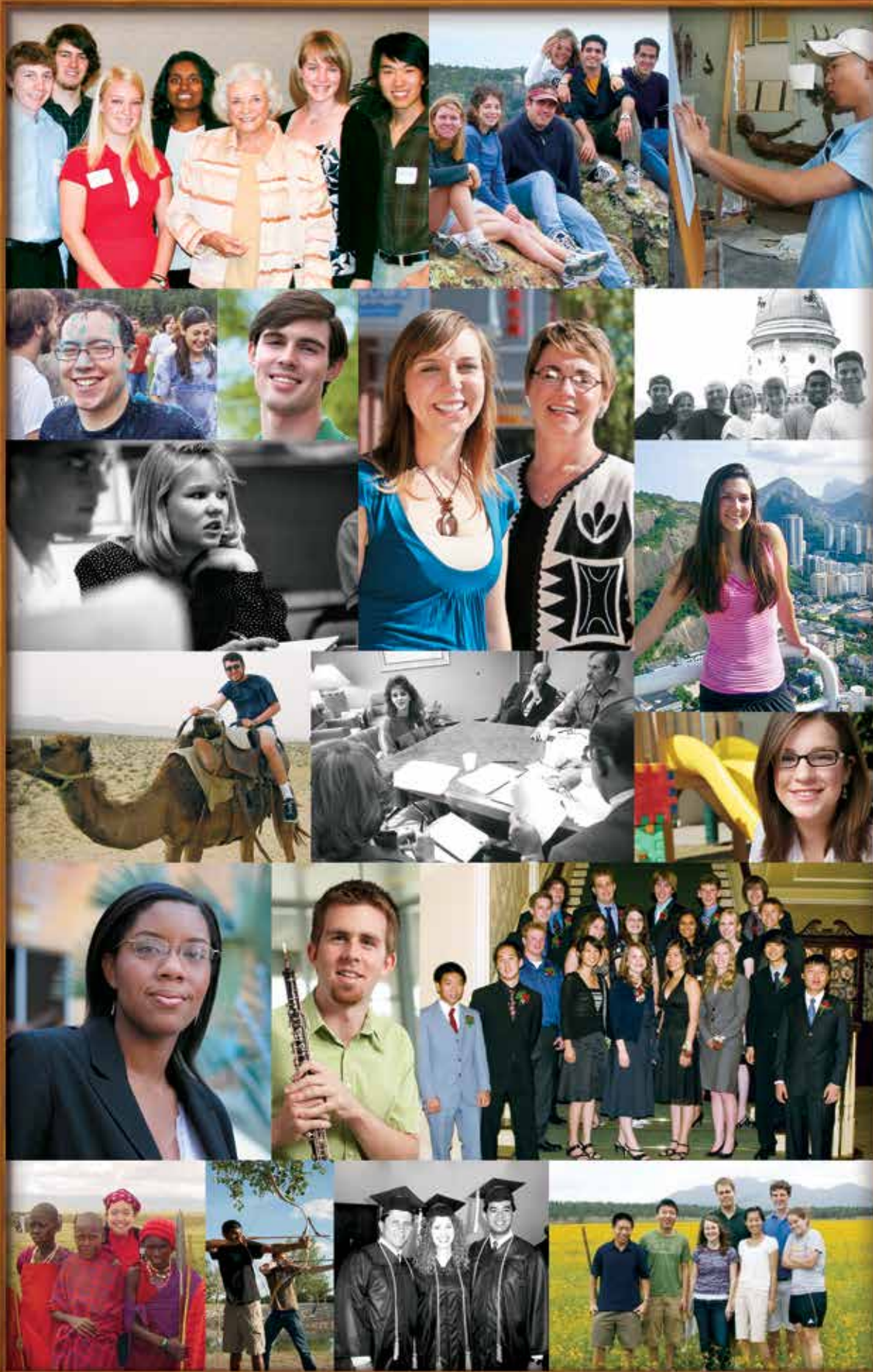


Jack B. Jewett

PRESIDENT & CHIEF EXECUTIVE OFFICER

Adversity can help clarify the decisions that lie before us, and indeed can help move us toward difficult but responsible action that renews our promise of opportunity.





A Flinn Scholars Milestone

A large, stylized white serif font '25' is centered on a solid green background. Below the '25', the word 'YEARS' is written in a smaller, white, all-caps serif font.

WHEN the Flinn Foundation's board of directors authorized creation of the Flinn Scholarship in 1985, time was short. It was already mid-October, the height of universities' recruitment season, and there was no brochure for the award, no application packet, no director of the new program. But six whirlwind months later, chosen from some 800 applicants, the Foundation selected its inaugural class of 20 Flinn Scholars.

The students in the Class of 1986 took a big chance, entrusting their undergraduate experience to an untested partnership between the Foundation and Arizona's public universities, a partnership that made a bold promise: Commit to Arizona's universities for four years and you will receive, for free, a finer education – including mentorship from top faculty, intimate honors courses, and extraordinary enrichment experiences – than the nation's most prestigious universities can offer.



The Foundation's board of directors took a big chance, too. The initial objectives of the Flinn Scholars Program were mightily ambitious. John Murphy and Myra Millinger, the Foundation executives who proposed the Flinn Scholarship, envisioned a program that accomplished much more than giving 20 students per year an excellent education. They believed the program would help Arizona's universities recruit a greater share of the state's highest-achieving students.

The students in the Class of 1986 and the Foundation's board of directors took a big chance. That chance has paid off.

And they believed the program would be a means to identify and nurture Arizona's future leaders.

The chances taken 25 years ago have paid off.

The Class of 1986 – as is true of each cohort that has followed – has made us tremendously proud. As undergraduates, they were the eclectic, curious, brilliant individuals we expected, majoring in fields like anthropology, physics, education, theater, and microbiology. Today, in their early 40s, they are entering the prime years of their professional lives. Among them are several engineers, as well as physicians, attorneys, a filmmaker, a singer, and a college dean. Some of them are now parents of eclectic, curious, brilliant teenagers.

Meanwhile, the ambitious aims of the Flinn Scholars Program have been realized. In the mid-1980s, the small undergraduate honors programs at Arizona's universities struggled to attract top Arizona students, losing most of them to schools like Harvard, Princeton, and Stanford. Since then, the honors programs have grown into nationally renowned, innovative models for undergraduate education, and more National Merit Scholars now enroll at Arizona's universities than at all but a handful of universities nationwide. Visionary faculty and administrators at the universities, working in concert with profile-raising programs like the Flinn Scholars, have proven a potent combination.

For several years, we wondered how realistic the objective of grooming future leaders for Arizona might be. But now, as the number of Flinn Scholar alumni approaches 400, we do see leaders emerging, with an impressive share of them here in Arizona (where fully one-third of all alumni live). They include rising entrepreneurs and business leaders, public servants, university faculty, and elected officials. And this is just the beginning; most of our alumni are still under the age of 35.

While the Foundation's board is encouraged by the impact of the Scholars Program in Arizona, from nearly the beginning a centerpiece of the program has been exploration far from home. We are pleased by the contributions and

ARIZONA AND BEYOND

Some 80 percent of Flinn Scholar alumni attend graduate school, many at the world's most prestigious universities. The most frequent destinations for alumni are:

University of Arizona
Harvard
Cal-Berkeley
Arizona State University
Stanford
MIT
Yale
New York University
Northwestern
Cambridge
Oxford
Johns Hopkins
UCLA



SCHOLAR UPDATE

Christina Kwasnica, M.D.
MESA DOBSON HIGH SCHOOL, 1987

Tina earned a bachelor's degree in political science, and then attended Northwestern University's Feinberg School of Medicine. Today, board-certified in pediatric rehabilitation, she is medical director of neuro-rehabilitation at the world-renowned Barrow Neurological Institute in Phoenix.



Flinn Scholars by the Numbers

Nearly 400 alumni – a third of them living in Arizona – are pursuing their dreams in every professional field, topped by business, medicine, law, and engineering. Among the more unusual choices:

- | | | | |
|---|---|---|--|
| 6 | teach middle- and high-school math and science. | 3 | are physicians practicing emergency medicine. |
| 5 | write, direct, and produce independent films. | 2 | hold international posts in the U.S. State Department. |
| 4 | manage youth-focused nonprofit organizations. | 1 | serves as an ordained minister in rural Arizona. |

SCHOLAR UPDATE

Ruben Alonzo

YUMA CIBOLA HIGH SCHOOL, 2001

Ruben was a campaign veteran well before he completed a degree in political science. In 2006 he managed his first statewide campaign, and in Arizona's 2010 election cycle served as campaign manager for a major-party nominee for the U.S. Congress.



2001



2010

SCHOLAR UPDATE

Katherine Larson

FLAGSTAFF HIGH SCHOOL, 1996

A double major in creative writing and ecology and evolutionary biology, Katherine received a master's degree in poetry from the University of Virginia and won the 2010 Yale Younger Poets Prize – among the nation's most prestigious literary awards. She writes full-time in Tucson.



1996



2010

achievements Flinn Scholars make across the country and internationally. With extraordinary talents and rich undergraduate experiences, Scholars regularly gain admission to the nation's top graduate and professional schools (where some already hold faculty positions), leading to the formation of substantial clusters of Scholar alumni in most major metropolitan areas, led by the Bay Area, Boston, New York, and Washington, D.C.

If there is a single trait common to Flinn Scholars, it is a compelling inclination to contribute to the creation of new knowledge. How they do that is up to them.

Flinn Scholars have established important records of service through Teach for America and the Peace Corps, in public institutions as Truman and National Security Education Program Scholars, and by leading nonprofit organizations

domestically and abroad. More than a few have built on undergraduate research and travel as Fulbright Scholars, and 15 Flinn Scholars have continued their studies in the United Kingdom after graduation as Rhodes, Marshall, Churchill, and Gates-Cambridge Scholars.

Flinn Scholars have entered almost every field imaginable, which is just as we would want it. Beginning in those first fall days of 1985, and ever since then, under the guidance of the Scholars Program's three outstanding directors, Barbra Barnes, Helen Rosen, and Dr. Michael Cochise Young, we have worked to ensure that there is no Flinn Scholar "type." If there is a single trait common to them all, it is a compelling inclination to contribute to the creation of new knowledge. How they do that is up to them.

We on the Foundation's board are committed to the Flinn Scholars as a pillar in fulfilling the Foundation's mission – to improve the quality of life in Arizona for the benefit of future generations. It has been a wonder to witness the good that the Scholars have already brought to our state and to the world.

David J. Gullen, M.D.

CHAIR, BOARD OF DIRECTORS



Investment and Financial Highlights 2009

The policies governing the Foundation's investment and financial operations are designed to support the long-term needs of its programs. To accomplish this, the assets are invested to produce relatively stable and predictable investment returns that will support consistent spending patterns. The Foundation has attempted to minimize the effects of market downturns on its programs by maintaining a diversified investment portfolio.

During 2009, the value of the endowment increased from \$152.7 million to \$178.9 million, reflecting a substantial recovery in global capital markets. For the year, the Foundation's investment portfolio earned a 23.3% nominal return, compared to the median foundation nominal return of 22.5%.

The Foundation awarded \$1.8 million in new grants and made cash payments of \$4.2 million toward current and prior-year grant awards. Expenses for specific programs administered by the Foundation and general administrative expenses totaled \$2.3 million and \$1.3 million, respectively. Additional investment and operating data are available on the Foundation's website at www.flinn.org or may be obtained by contacting the Chief Financial Officer, Don P. Snider.



About the Flinn Foundation

The Flinn Foundation was established in 1965 by Dr. Robert S. Flinn, a prominent Phoenix cardiologist, and his wife, Irene Pierce Flinn, with the broad mission of improving the quality of life in Arizona. The Foundation is a private, nonprofit, philanthropic endowment that supports the advancement of the biosciences by making grants and investments, fostering multi-institutional collaborations, and commissioning and staffing *Arizona's Bioscience Roadmap*. The Foundation also awards scholarships for undergraduate study in partnership with the state's three public universities through the Flinn Scholars Program, supports the advancement of arts and culture in Arizona, and administers an emerging program to strengthen civic leadership in Arizona. Located near downtown Phoenix, the Foundation's building features a conference facility that is open at no cost to qualified nonprofit organizations.

THE COMPLETE 2009 FLINN FOUNDATION ANNUAL REPORT IS AVAILABLE AT WWW.FLINN.ORG

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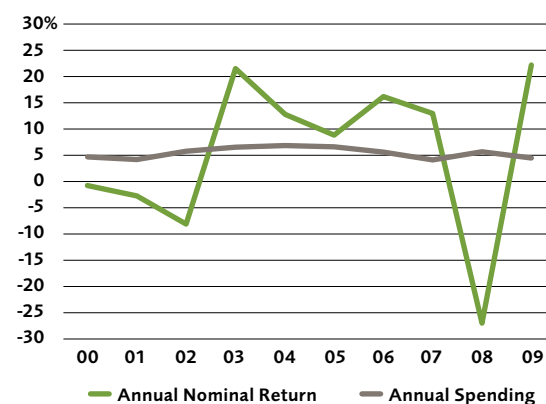
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AT OCT. 15, 2010

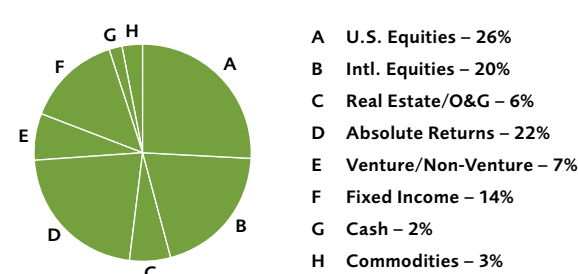
ANNUALIZED RETURN VS. SPENDING RATE

Years Ending December 31



INVESTMENT PORTFOLIO

Asset allocation at December 31, 2009





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