

Friends of the Rouge

**Financial Statements
December 31, 2019**

**Friends of the Rouge
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December 31, 2019**

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Independent Auditors' Report

To the Board of Directors
Friends of the Rouge
Plymouth, Michigan

We have audited the accompanying financial statements of Friends of the Rouge (a nonprofit corporation), which comprise the statement of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the year 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 accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 auditors consider 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Friends of the Rouge as of December 31, 2019, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.



Cole, Newton & Duran
Livonia, Michigan
June 23, 2020

Friends of the Rouge
Statement of Financial Position
December 31, 2019

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$ 85,577	
Investments	313,678	
Grants receivable	173,500	
Other receivables	7,460	
Prepaid expenses	8,090	
Total current assets		\$ 588,305

PROPERTY AND EQUIPMENT

Furniture, fixtures, and equipment	209,761	
Less accumulated depreciation	(60,850)	
Net property and equipment		148,911

LONG-TERM ASSETS

Quasi-endowment fund		105,946

TOTAL ASSETS

\$ 843,162

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 5,453	
Accrued expenses	21,550	
Capital lease, current portion	15,710	
Total current liabilities		\$ 42,713

OTHER LIABILITIES

Deferred rent	14,492	
Capital lease, long-term portion	49,317	
Total long-term liabilities		63,809
Total liabilities		106,522

NET ASSETS

Without donor restrictions	435,489	
With donor restrictions	301,151	
Total net assets		736,640

TOTAL LIABILITIES AND NET ASSETS

\$ 843,162

Friends of the Rouge
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUE			
Contributions	\$ 127,229	\$ -	\$ 127,229
Grants	249,748	250,500	500,248
Membership dues	25,695	-	25,695
Investment income (loss)	58,372	-	58,372
Income from endowment	12,137	-	12,137
Special events and appeals	50,794	-	50,794
Miscellaneous income	7,172	-	7,172
Subtotal	531,147	250,500	781,647
Net assets released from restrictions	278,349	(278,349)	-
Total support and revenue	809,496	(27,849)	781,647
FUNCTIONAL EXPENSES			
Program services	580,056	-	580,056
Management and general	196,679	-	196,679
Fundraising	54,358	-	54,358
Total functional expenses	831,093	-	831,093
INCREASE (DECREASE) IN NET ASSETS	(21,597)	(27,849)	(49,446)
NET ASSETS AT BEGINNING OF YEAR	457,086	329,000	786,086
NET ASSETS AT END OF YEAR	\$ 435,489	\$ 301,151	\$ 736,640

See Notes to the Financial Statements

Friends of the Rouge
Statement of Functional Expenses
For the Year Ended December 31, 2019

	Program	Management and general	Fundraising	Total expenses
Salaries, wages, and benefits	\$ 262,767	\$ 145,343	\$ 32,137	\$ 440,247
Project expenses	218,431	-	-	218,431
Supplies	3,505	1,934	428	5,867
Technology and database	4,388	2,420	535	7,343
Travel and business expense	4,961	2,736	605	8,302
Auto maintenance and insurance	1,404	-	-	1,404
Training and professional development	2,776	1,531	339	4,646
Contract and professional fees	15,522	8,563	1,893	25,978
Advertising and promotion	5,957	3,287	726	9,970
Board functions	460	254	56	770
Liability insurance	3,654	2,016	445	6,115
Postage and shipping	1,213	669	149	2,031
Rent	26,357	13,228	2,924	42,509
Telephone	3,165	1,746	386	5,297
Outside printing and copier	4,506	2,486	550	7,542
Interest expense	4,060	1,099	243	5,402
Bank and credit card fees	479	264	59	802
Miscellaneous expenses	855	500	71	1,426
Annual meeting expense	2,768	1,527	338	4,633
Fundraising events	-	-	10,909	10,909
Depreciation	12,828	7,076	1,565	21,469
Total expenses	<u>\$ 580,056</u>	<u>\$ 196,679</u>	<u>\$ 54,358</u>	<u>\$ 831,093</u>

See Notes to the Financial Statements

Friends of the Rouge
Statement of Cash Flows
For the Year Ended December 31, 2019

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (49,446)	
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities		
Depreciation	21,469	
(Increase) decrease in assets:		
Grants receivable	40,594	
Prepaid expenses	(1,464)	
Increase (decrease) in liabilities		
Accounts payable	(15,682)	
Accrued expenses	2,755	
Refundable advances	(26,000)	
Deferred rent	1,351	
Net cash provided by (used in) operating activities		(26,423)

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of fixed assets	(10,731)	
Purchase of investments	(110,879)	
Proceeds from sales of investments	120,278	
Net cash provided by (used in) investing activities		(1,332)

CASH FLOWS FROM FINANCING ACTIVITIES

Principal payments on capital lease payable	(15,710)	
Net cash provided by (used in) financing activities		(15,710)

NET INCREASE (DECREASE IN CASH AND CASH EQUIVALENTS) (43,465)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 129,042

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 85,577

Supplemental disclosures

Cash paid for interest	\$ 5,402	
Cash paid for income taxes	\$ -	

Friends of the Rouge
Notes to the Financial Statements
December 31, 2019

NOTE 1 – Nature of Activities

Friends of the Rouge (the Organization) was incorporated for the purpose of promoting the restoration and stewardship of the Rouge River watershed through public education and public involvement. The Organization's principal services include facilitating and coordinating Public Involvement Programs and the Rouge Education Project. The Organization's principal revenue sources include grants as well as contributions from metropolitan Detroit companies, communities, and other corporations and individuals.

NOTE 2 – Summary of Significant Accounting Policies

Basis of accounting – The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and, accordingly, reflect all significant receivables, payables, and other liabilities.

Basis of presentation – The Organization reports information regarding its financial position and activities according to two classes of net assets as follows:

Without donor restrictions – consist of resources that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

With donor restrictions – consist of resources of which the use by the Organization is limited by donor-imposed stipulations.

Use of estimates – The preparation of financial statements in conformity with generally accepted accounting principles 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 and expenses during the reporting period. Actual results could differ from those estimates.

Fair value of financial instruments – FASB guidance on fair value measurement defines fair value, establishes a framework for measuring fair value, and expands disclosure of fair value measurements. The guidance applies to all assets and liabilities that are measured and reported on a fair value basis. The carrying amounts of financial instruments, including cash, cash equivalents, receivables, prepaids, accounts payable, and accrued liabilities, approximate fair value due to the short-term maturity of these instruments.

Cash equivalents – The Organization considers all highly liquid investments with maturity of three months or less to be cash equivalents. Money market funds that are managed by an investment broker are considered investments.

Receivables – Receivables consist primarily of grants and unconditional promises to give and are recorded at estimated fair value. Management considers the amounts to be fully collectible; accordingly, no allowance for doubtful accounts has been provided. Uncollectible accounts are written off in the year they are deemed uncollectible.

Property and equipment – The Organization capitalizes all expenditures for property and equipment in excess of \$1,000. Property and equipment are recorded at cost. Donated assets are recorded at fair market value at the time of donation. Depreciation is recognized using the straight-line method over the estimated life of the asset. Major repairs and improvements are capitalized and depreciated while minor repairs and replacements are charged to expenditures as incurred. Gains and losses on dispositions are reflected in current operations.

Investments – Investments are reported at their fair values in the statement of financial position. Unrealized gains and losses are included in the changes in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met in the reporting period in which the income and gains are recognized.

Friends of the Rouge
Notes to the Financial Statements
December 31, 2019

NOTE 2 – Summary of Significant Accounting Policies (continued)

Revenue recognition – Contributions are recognized as revenue in the year received or unconditionally promised by the donor. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are reported as support without donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are classified as net assets without donor restrictions and reported in the statement of activities and changes in net assets as net assets released from restrictions.

In-kind contributions – Use of workshop facilities, donated professional services, and donated goods and materials are recorded at the estimated fair value as revenue and expense. The Organization received no donated goods and materials for the year ended December 31, 2019.

Allocation of functional expenses – The cost of providing program and support services have been reported on a functional basis in the statement of functional expenses. Expenses that can be identified with a specific program are charged directly to that program. Program expenses that cannot be identified with a specific program require allocation on a reasonable basis that is consistently applied. Expenses that are allocated include salaries, payroll taxes, and fringe benefits, which are allocated based on time sheets. Operating expenses, which include auto, bank fees, board functions, depreciation, insurance, interest, postage, printing, promotion, supplies, rent, technology, telephone, training, travel, moving, and miscellaneous, are allocated to programs based on the ratio of program salaries to total salaries.

Management and general expenses include those costs that are not identifiable with any program, but which provide for the overall support and direction of the Organization.

Advertising and promotion – Advertising and promotion expenditures are charged to expense as incurred. Advertising and promotion expenses for the year ended December 31, 2019, was \$9,970.

Tax status – The Organization is exempt from federal income taxes under Section 501(C)(3) of the United States Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. The Organization is no longer subject to Internal Revenue Service examinations for years prior to 2016. Management has evaluated FASB ASC 740, *Income Taxes*, and has concluded it has no uncertain positions.

Subsequent events – Management has evaluated events and transactions for potential recognition or disclosure through the date of the auditors' report, which is the date the financial statements were available to be issued.

NOTE 3 – Concentration of Credit Risk

Cash – The Organization maintains its cash balances at financial institutions located in southeastern Michigan. The balances are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 in any one bank. At times during the year, balances on deposit in any one bank may exceed the insured amount. Uninsured balances as of December 31, 2019, was \$0. The Organization has not experienced any losses with respect to uninsured cash balances.

Receivables – Concentrations of accounts receivable include 2 grants receivable from two foundation, which made up approximately 73% of the total grants' revenue at December 31, 2019.

Friends of the Rouge
Notes to the Financial Statements
December 31, 2019

NOTE 3 – Concentration of Credit Risk (continued)

Investments – Fund held in brokerage accounts are not covered by the FDIC, but are covered by the Securities Investor Protection Corporation (SIPC), which insures certain claims up to \$500,000, including a \$250,000 limit for cash. Uninsured balances in brokerage accounts at the year ended December 31, 2019, was \$0. The Organization has not experienced any losses with respect to uninsured deposits.

Revenue – Concentrations of revenue include grants from one foundation totaling \$120,000, which made up approximately 24% of the total grants revenue at December 31, 2019.

NOTE 4 – Contingencies

The final determination of revenue is subject to the acceptance of program costs by the contracting agency. To the extent that costs are disallowed by the contracting agency, Organization monies would be required to reimburse the applicable agency. The Organization does not believe that any potential disallowed costs would be material to the financial statements.

NOTE 5 – Operating Leases

Office space – The Organization entered into a lease agreement for office space covering a 64-month period, beginning May 1, 2018, and ending September 30, 2023. Monthly payments at the inception of the lease amounted to \$3,060, with payments beginning September 1, 2018, subject to rent escalations as detailed in the leasing agreement. The Organization recognizes lease obligations on a straight-line basis in accordance with ASC 840-20, *Operating Leases*. As such, the Organization's total rent expense under this lease for the year ended December 31, 2019, amounted to \$38,071. The difference between total rent expense and the lease payments, required by the lessee, amounted to a deferred rent amount of \$14,492 as of December 31, 2019. Future minimum lease payments as of December 31, 2019, are as follows:

December 31,	
2020	\$ 37,088
2021	38,204
2022	39,352
2023	<u>26,752</u>
Total	<u>\$ 141,396</u>

Office equipment – The Organization leases office equipment for \$326 a month, plus usage, under an operating lease, effective April 2016 through July 2021. Lease expense for the year ended December 31, 2019, was \$5,400. Future minimum rental commitments under this lease are as follows:

December 31,	
2020	\$ 3,912
2021	<u>1,956</u>
Total	<u>\$ 5,868</u>

Friends of the Rouge
Notes to the Financial Statements
December 31, 2019

NOTE 6 – Capital Leases

The Organization leases office furniture under a capital lease expiring in June 2023. The assets and liabilities under capital leases are recorded at the present value of the minimum lease payments for the fair value of the asset. Imputed interest rate is 7.34%. The assets are depreciated over their estimated productive lives. Amortization of assets under capital leases is included in depreciation expense. The following is a summary of property held under capital leases:

Equipment	\$ 89,693
Accumulated amortization	<u>(13,454)</u>
	<u>\$ 76,239</u>

Minimum future lease payments under capital leases as of December 31, 2019, were as follows:

December 31,	
2020	\$ 21,112
2021	21,112
2022	21,112
2023	<u>10,599</u>
	73,935
Amount representing interest	<u>(8,908)</u>
	<u>\$ 65,027</u>
Current portion of capital leases	\$ 15,710
Noncurrent portion of capital leases	<u>49,317</u>
	<u>\$ 65,027</u>

NOTE 7 – Investments

Investments consisted of the following as of December 31, 2019:

Fixed income	81,724
Mutual funds	<u>29,984</u>
Total	<u>\$ 313,678</u>

Investment income for the year ended December 31, 2019, is as follows:

Interest and dividends	\$ 9,104
Realized gains (losses)	4,724
Unrealized gains (losses)	48,290
Management fees	<u>(3,746)</u>
Total investment income (loss)	<u>\$ 58,372</u>

Friends of the Rouge
Notes to the Financial Statements
December 31, 2019

NOTE 7 – Investments (continued)

Investment Risks – Investment securities are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with certain investment securities and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in the values in the near term could materially affect the amounts reported in the accompanying financial statements.

NOTE 8 – Fair Value Measurements

The Organization's investments are reported at fair value in the accompanying statement of financial position. The methods used to measure fair value may produce an amount that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The fair value measurement accounting literature establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels:

Level 1 Fair Value Measurement inputs consist of unadjusted quoted prices in active markets for identical, actual assets or liabilities and have the highest priority. Management considers cash, cash equivalents (including certificates of deposits), publicly traded equities, mutual funds, and US Treasury securities to be Level 1 inputs.

Level 2 Fair Value Measurement inputs are inputs other than quoted prices included within Level 1 that are observable for the asset, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets in active markets. Quoted prices for identical or similar assets in markets that are quoted at prices that are not immediately current, or when price quotations vary substantially either over time or among market markers for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates.

Level 3 Fair Value Measurement inputs are unobservable inputs for the asset. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation.

As of December 31, 2019, management considers all investments to be Level 1 in the fair value hierarchy. There were no transfers between levels during the year ended December 31, 2019.

NOTE 9 – Retirement Plan

A 401k plan is available to all eligible employees. Under the plan, the Organization contributes 2% of each eligible employee's compensation to the plan. Employees may elect to contribute any amount up to the maximum amount allowed by law. The expense incurred by the Organization for the year ended December 31, 2019, was \$7,590.

Friends of the Rouge
Notes to the Financial Statements
December 31, 2019

NOTE 10 – Restrictions on Net Assets

Donor restricted – As of December 31, 2019, donor restricted net assets were restricted as follows:

Program	
Rain Gardens to the Rescue	\$ 112,251
B-WET Grant	32,000
General Operating	80,000
Water School	9,616
Water Trail	67,284
	<u>\$ 301,151</u>

Donor restricted net assets were released during the year ended December 31, 2019, as follows:

General Fund	69,000
B Wet Grant	43,000
Water Trail	19,600
Phase II Implementation of the Rouge River Trail	38,000
Strategic Planning	11,000
	<u>\$ 278,349</u>

Board designated – In July 2017, the Board of Directors elected to designate a portion of the Organization’s net assets without donor restrictions into an endowment fund held with the Community Foundation of Southeast Michigan (Foundation). The Foundation has been granted variance power by the Organization. Endowment funds changed during the year ended December 31, 2019, as follows:

Endowment fund net assets at beginning of year	\$ 93,809
Unrealized gain (loss)	17,179
Investment fees	(504)
Amount appropriated for expenditure	<u>(4,538)</u>
Endowment fund net assets at end of year	<u>\$ 105,946</u>

Investment policy – The Investment Committee of the Organization is authorized to invest the Organization’s funds with the following goals:

1. Safety and preservation of capital
2. Moderate growth
3. Availability of funds as needed for day-to-day operations and major purchases

With respect to endowment funds, investments with stated maturities will have laddered maturities to minimize interest rate risk. Earnings will be reinvested or withdrawn in accordance with the Board of Directors’ endowment fund guidelines.

Spending policy – The Organization has designated the earnings from the endowment funds as unrestricted earnings to be spent for general operations, program services, or fundraising efforts.

Friends of the Rouge
Notes to the Financial Statements
December 31, 2019

NOTE 11 – Liquidity and Availability of Financial Assets

The following reflects the Organization’s financial assets as of the balance sheet date, reduced by amounts not available for general use within one year of the balance sheet date. Amounts not available include amounts set aside for long-term investing in the quasi-endowment that could be drawn upon if the governing board approves that action.

Financial assets at year-end		\$ 843,162
Less those unavailable for general expenditure within one year		
Restricted by donors with time or purpose restrictions	\$ 301,151	
Board designated quasi-endowment	105,946	
Net property and equipment	<u>148,911</u>	
		<u>556,008</u>
Financial assets available to meet cash needs for general expenditures within one year		<u>\$ 287,154</u>

As part of the Organization’s liquidity management, it invests cash in excess of daily requirements in short-term investments, typically equities and mutual funds.

Note 12 – Subsequent Event

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. There has been no immediate impact to the Organization’s operations. Future potential impacts may include disruptions or restrictions on our employees’ ability to work or the availability of funding sources. Changes to the operating environment may increase operating costs. The future effects of these issues are unknown.