Friends of the Rouge

Financial Statements
December 31, 2021

With Comparative Totals
For the Year Ended December 31, 2020

Friends of the Rouge
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Independent Auditors' Report

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

Opinion

We have audited the accompanying financial statements of Friends of the Rouge (a nonprofit organization), which comprise the statement of financial position as of December 31, 2021, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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, 2021, and the changes in net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Friends of the Rouge and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Friends of the Rouge's ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

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- Obtain an understanding of internal control relevant to the audit 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 Friends of the Rouge’s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Friends of the Rouge's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

Report on Summarized Comparative Information

We have previously audited Friends of the Rouge’s 2020 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated July 30, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2020, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Cole, Newton & Duran CPAs

Cole, Newton & Duran
Livonia, Michigan
July 18, 2022

Friends of the Rouge
Statement of Financial Position
December 31, 2021
With Comparative Totals for December 31, 2020

ASSETS

	2021	2020
CURRENT ASSETS		
Cash and cash equivalents	$ 253,742	$ 306,385
Investments	383,333	328,539
Grants receivable	609,116	889,050
Other receivables	1,808	14,366
Prepaid expenses	10,622	9,802
Total current assets	1,258,621	1,548,142
PROPERTY AND EQUIPMENT		
Furniture, fixtures, and equipment	261,824	211,691
Less accumulated depreciation	(109,169)	(83,352)
Net property and equipment	152,655	128,339
LONG-TERM ASSETS		
Quasi-endowment fund	122,689	113,686
TOTAL ASSETS	$ 1,533,965	$ 1,790,167

LIABILITIES AND NET ASSETS

	2021	2020
CURRENT LIABILITIES		
Accounts payable	$ 17,133	$ 336,877
Accrued expenses	20,164	15,831
Capital lease, current portion	19,636	18,251
Total current liabilities	56,933	370,959
OTHER LIABILITIES		
Deferred rent	15,501	15,475
Capital lease, long-term portion	9,834	28,997
Total long-term liabilities	25,335	44,472
Total liabilities	82,268	415,431
NET ASSETS		
Without donor restrictions	540,895	535,075
With donor restrictions	910,802	839,661
Total net assets	1,451,697	1,374,736
TOTAL LIABILITIES AND NET ASSETS	$ 1,533,965	$ 1,790,167

Friends of the Rouge
Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2021
With Comparative Totals for the Year Ended December 31, 2020

	Without Donor Restrictions	With Donor Restrictions	2021 Total	2020 Total
SUPPORT AND REVENUE				
Contributions	$ 98,129	$ -	$ 98,129	$ 210,872
Grants	239,207	688,943	928,150	1,341,177
Income from endowment	13,092	-	13,092	12,047
In-kind donations	-	-	-	2,600
Investment income (loss)	50,709	-	50,709	6,892
Membership dues	40,027	-	40,027	36,644
Miscellaneous income	21,155	-	21,155	22,932
Product sales	46,103	-	46,103	45,325
Special events and appeals	132,260	-	132,260	74,522
Subtotal	640,682	688,943	1,329,625	1,753,011
Net assets released from restrictions	617,802	(617,802)	-	-
Total support and revenue	1,258,484	71,141	1,329,625	1,753,011
FUNCTIONAL EXPENSES				
Program services	905,506	-	905,506	835,421
Management and general	208,820	-	208,820	159,042
Fundraising	138,338	-	138,338	120,452
Total functional expenses	1,252,664	-	1,252,664	1,114,915
INCREASE (DECREASE) IN NET ASSETS	5,820	71,141	76,961	638,096
NET ASSETS AT BEGINNING OF YEAR	535,075	839,661	1,374,736	736,640
NET ASSETS AT END OF YEAR	$ 540,895	$ 910,802	$ 1,451,697	$ 1,374,736

Friends of the Rouge
Statement of Functional Expenses
For the Year Ended December 31, 2021
With Comparative Totals for the Year Ended December 31, 2020

	2021				2020
	Program services	Management and general	Fundraising	Total expenses	Totals
Advertising and promotion	$ 5,619	$ -	$ 624	$ 6,243	$ 10,694
Annual meeting expense	-	-	2,357	2,357	2,403
Auto maintenance and insurance	928	-	-	928	1,116
Bank and credit card fees	-	-	42	42	251
Board functions	-	234	-	234	324
Contract and professional fees	11,287	3,336	1,823	16,446	15,150
Depreciation	17,719	5,237	2,861	25,817	22,502
Fundraising events	-	-	49,319	49,319	24,525
Interest expense	-	3,334	-	3,334	3,334
Liability insurance	5,057	1,495	817	7,369	6,507
Miscellaneous expenses	-	-	-	-	2,055
Outside printing and copier	2,736	809	1,717	5,262	5,071
Postage and shipping	-	953	953	1,906	2,447
Project expenses	367,415	-	-	367,415	415,945
Rent	25,732	7,606	4,156	37,494	38,071
Salaries, wages, and benefits	454,226	168,952	71,438	694,616	535,417
Supplies	3,726	1,101	602	5,429	6,937
Technology and database	5,870	1,735	948	8,553	6,980
Telephone	4,091	1,209	661	5,961	5,025
Training and professional development	1,100	2,221	20	3,341	129
Travel and business expense	-	10,598	-	10,598	10,032
Total expenses	$ 905,506	$ 208,820	$ 138,338	$ 1,252,664	$ 1,114,915

Friends of the Rouge
Statement of Cash Flows
For the Year Ended December 31, 2021
With Comparative Totals for the Year Ended December 31, 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 76,961	$ 638,096
Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities:		
Depreciation	25,817	22,502
(Gain) loss on investments	(39,789)	3,428
(Gain) loss on endowment fund	(13,598)	(12,819)
(Increase) decrease in assets:		
Grants receivable	279,934	(715,550)
Other receivables	12,558	(6,906)
Prepaid expenses	(820)	(1,712)
Increase (decrease) in liabilities:		
Accounts payable	(319,744)	331,424
Accrued expenses	4,333	(5,719)
Deferred rent	26	983
Net cash provided by (used in) operating activities	25,678	253,727
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of fixed assets	(50,133)	(1,930)
Purchase of investments	(51,438)	(40,266)
Proceeds from sales of investments	41,028	27,056
Net cash provided by (used in) investing activities	(60,543)	(15,140)
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on capital lease payable	(17,778)	(17,779)
Net cash provided by (used in) financing activities	(17,778)	(17,779)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(52,643)	220,808
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	306,385	85,577
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 253,742	$ 306,385
Supplemental disclosures		
Cash paid for interest	$ 3,334	$ 3,334
Cash paid for income taxes	$ -	$ -

NOTE 1 – Nature of Activities

Friends of the Rouge (the Organization) was incorporated to restore, protect, and enhance the Rouge River watershed through stewardship, education, and collaboration. The Organization's principal services include: Monitoring, Education, Restoration, and Recreation. The Organization's principal revenue sources include grants as well as contributions from metropolitan Detroit companies, communities, 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 not restricted by any 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 a 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. Depreciation expense for the years ended December 31, 2021 and 2020, was $25,817 and $22,502, respectively.

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.

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 $0 and $2,600 of donated goods and materials for the years ended December 31, 2021 and 2020, respectively.

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. Expenses that cannot be identified with a specific program require allocation on a reasonable basis that is consistently applied. Expenses that are allocated are done so based on time sheets and 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 years ended December 31, 2021 and 2020, were $6,243 and $10,694, respectively.

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 2018. 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, 2021 and 2020, were $5,669 and $20,991, respectively. The Organization has not experienced any losses with respect to uninsured cash balances.

Receivables – Concentrations of grants receivable include grants from three sources, which made up approximately 87% of grants receivable at December 31, 2021. Concentrations at December 31, 2020, include grants from four sources, which made up approximately 83% of the total grants receivable at year end.

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 years ended December 31, 2021 and 2020, were $0. The Organization has not experienced any losses with respect to uninsured deposits.

Revenue – Concentrations of revenue include grants from three sources totaling $519,623, which made up approximately 56% of the total grant revenue for the year ended December 31, 2021. Concentration for the year ended December 31, 2020, includes grants from two sources totaling $644,684, which made up approximately 48% of grant revenue.

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 years ended December 31, 2021 and 2020, amounted to $37,494 and $38,071, respectively. The difference between total rent expense and the lease payments, required by the lessee, amounted to a deferred rent amount of $15,501 and $15,475 as of December 31, 2021 and 2020, respectively. Future minimum lease payments as of December 31, 2021, are as follows:

December 31,	
2022	$ 39,352
2023	26,752
Total	$ 66,104

Office equipment – In April 2016, the Organization entered into an operating lease agreement for office equipment requiring payments of $326 a month, plus usage effective through July 2021. In July 2021 the Organization entered into an operating lease agreement for office equipment requiring payments of $232 a month, plus usage effective through September 2026. Lease expense for the years ended December 31, 2021 and 2020, was $4,626 and $3,986, respectively. Future minimum rental commitments under this lease are as follows:

December 31,	
2022	$ 2,788
2023	2,788
2024	2,788
2025	2,788
2026	2,091
Total	$ 13,243

NOTE 6 – Capital Lease

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

	2021	**2020**
Equipment	$ 89,693	$ 89,693
Accumulated amortization	(31,392)	(22,423)
	$ 58,301	$ 67,270

NOTE 6 – Capital Lease (continued)

Minimum future lease payments under the capital lease as of December 31, 2021, are as follows:

December 31,		
2022	$	21,112
2023		10,598
		31,710
Amount representing interest		(2,240)
	$	29,470
Current portion of capital lease	$	19,636
Noncurrent portion of capital lease		9,834
	$	29,470

NOTE 7 – Investments

Investments consisted of the following as of December 31, 2021 and 2020:

	2021		2020	
Cash and money market funds	$	10,632	$	9,227
Equities		247,352		196,347
Fixed income		125,349		122,965
Total	$	383,333	$	328,539

Investment income for the years ended December 31, 2021 and 2020, are as follows:

	2021		2020	
Interest and dividends	$	10,920	$	10,320
Realized gains (losses)		13,698		(2,583)
Unrealized gains (losses)		26,091		(845)
	$	50,709	$	6,892

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

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP requires the Organization to disclose the fair value of each of its assets and liabilities based on the level of observable inputs. The three levels of the fair value hierarchy are as follows:

NOTE 8 – Fair Value Measurements (continued)

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that a reporting entity has the ability to access at the measurement date or published net asset value for alternative investments with characteristics similar to a mutual fund.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability.

The level in the fair value hierarchy within which a fair value measurement falls, in its entirety, is based on the lowest level input that is significant to the fair value measurement. As of December 31, 2021 and 2020, all investments were classified as Level 1. During the years ended December 31, 2021 and 2020, there were no transfers between levels.

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 years ended December 31, 2021 and 2020, was $10,190 and $8,784, respectively.

NOTE 10 – Restrictions on Net Assets

Donor restricted – As of December 31, 2021 and 2020, donor restricted net assets were restricted as follows:

Program	2021	2020
Rain Gardens to the Rescue	$ 202,630	$ 266,318
Gateway Trail	17,560	325,625
B-Wet Grant	80,000	80,000
General Operating	-	40,000
Water Trail	68,768	64,124
Other programs and projects	541,844	63,594
	$ 910,802	$ 839,661

Donor restricted net assets released during the years ended December 31, 2021 and 2020, were as follows:

Program	2021	2020
Rain Gardens to the Rescue	$ 95,318	$ 120,933
Gateway Trail	308,065	-
General Fund	40,000	40,000
B Wet Grant	80,000	32,000
Water Trail	11,355	69,761
Other programs and projects	83,064	35,051
	$ 617,802	$ 297,745

NOTE 10 – Restrictions on Net Assets (continued)

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 years ended December 31, 2021 and 2020, as follows:

	2021	2020
Endowment fund net assets at beginning of year	$ 113,686	$ 105,946
Contributions	460	-
Unrealized gains (loss)	13,598	12,819
Investment fees	(506)	(508)
Amount appropriated for expenditure	(4,549)	(4,571)
Endowment fund net assets at end of year	$ 122,689	$ 113,686

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.

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.

	2021	**2020**
Financial assets at year-end	$ 1,381,310	$ 1,661,828
Less those unavailable for general expenditure within one year:		
Restricted by donors with time or purpose restrictions	(910,802)	(839,661)
Board designated quasi-endowment	(122,689)	(113,686)
Financial assets at year-end for general use within one year	$ 347,819	$ 708,481

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 – Comparative Statements

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended December 31, 2020, from which the summarized information was derived.

NOTE 13 – PPP Loan

The Organization was granted loans pursuant to the Paycheck Protection Program (the PPP) under Division A, Title I of the CARES act which was enacted March 27, 2020. The Consolidated Appropriations Act of 2021 extended the program, allowing for a 2nd round of funding. The loans bear interest at a rate of 1%. Funds from the loans may only be used for payroll costs, costs used to continue group health care benefits, rent, utilities, and interest on debt obligations in place before February 15, 2020. Under the terms of the PPP, certain amounts of the loans may be forgiven by the Small Business Administration (SBA) if they are used for qualifying expenses as described in the CARES Act and extended by the Consolidated Appropriations Act. The unforgiven portion of the PPP loans is payable over two years at an interest rate of 1%, with payments deferred for the first ten months.

On April 6, 2020, the Organization was granted a loan of $100,535 under the PPP. This loan was forgiven by the SBA on December 1, 2020.