

**Friends of the Rouge**

**Financial Statements  
December 31, 2017**

**With Comparative Totals  
For the Year Ended December 31, 2016**

**Friends of the Rouge**  
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**December 31, 2017**

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## Independent Auditors' Report

To the Board of Directors  
Friends of the Rouge  
Dearborn, 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, 2017, 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### 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, 2017, 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.

### Report on Summarized Comparative Information

We previously audited the Friends of the Rouge's 2016 financial statements, and our report dated September 12, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Cole, Newton & Duran  
Livonia, Michigan  
July 12, 2018

**Friends of the Rouge**  
**Statement of Financial Position**  
**December 31, 2017**  
**With Comparative Totals for the Year Ended December 31, 2016**

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**ASSETS**

	2017	2016
<b>Current Assets</b>		
Cash and cash equivalents	\$ 244,886	\$ 93,086
Investments	378,333	464,208
Grants receivable	286,381	52,047
Promises to give	3,793	-
Other receivables	2,930	-
Prepaid expenses	4,882	3,282
Total current assets	921,205	612,623
<b>Property and Equipment</b>		
Furniture, fixtures, and equipment	56,419	39,996
Less accumulated depreciation	(37,228)	(32,684)
Net property and equipment	19,191	7,312
<b>Long-Term Assets</b>		
Endowment fund	104,034	-
<b>Total Assets</b>	\$ 1,044,430	\$ 619,935

**LIABILITIES AND NET ASSETS**

<b>Current Liabilities</b>		
Accounts payable	\$ -	\$ 7,189
Accrued expenses	17,030	8,818
Refundable advances	26,000	26,000
Total current liabilities	43,030	42,007
<b>Net Assets</b>		
Unrestricted	490,706	577,928
Board designated funds	104,034	-
Total unrestricted net assets	594,740	577,928
Temporarily restricted net assets	406,660	-
Total net assets	1,001,400	577,928
<b>Total Liabilities and Net Assets</b>	\$ 1,044,430	\$ 619,935

**Friends of the Rouge**  
**Statement of Activities and Changes in Net Assets**  
**December 31, 2017**  
**With Comparative Totals for the Year Ended December 31, 2016**

	Unrestricted	Temporarily Restricted	2017 Total	2016 Total
<b>Support and Revenue</b>				
Contributions	\$ 44,991	\$ -	\$ 44,991	\$ 92,536
In-kind donations	10,822	-	10,822	-
Grants	355,493	406,660	762,153	219,692
Membership dues	30,284	-	30,284	29,484
Investment income (loss)	34,133	-	34,133	14,705
Income from endowment	4,034	-	4,034	-
Special events and appeals, net of direct expenses of \$6,786 and \$11,507	49,074	-	49,074	10,777
Miscellaneous income	200	-	200	3
Subtotal	529,031	406,660	935,691	367,197
Net assets released from restrictions	-	-	-	-
Total Support and Revenue	529,031	406,660	935,691	367,197
<b>Expenses</b>				
Program	324,801	-	324,801	303,648
Management and general	161,075	-	161,075	67,918
Fundraising	26,343	-	26,343	15,886
Total Expenses	512,219	-	512,219	387,452
<b>Increase (Decrease) in Net Assets</b>	16,812	406,660	423,472	(20,255)
<b>Net Assets at Beginning of Year</b>	577,928	-	577,928	598,183
<b>Net Assets at End of Year</b>	<u>\$ 594,740</u>	<u>\$ 406,660</u>	<u>\$ 1,001,400</u>	<u>\$ 577,928</u>

See Notes to the Financial Statements

**Friends of the Rouge  
Statement of Functional Expenses  
December 31, 2017  
With Comparative Totals for the Year Ended December 31, 2016**

	2017		2016	
	Program	Management and General	Fundraising	Totals
Salaries, wages, and benefits	\$ 184,835	\$ 146,509	\$ 22,510	\$ 353,854
Project expenses	69,270	-	-	69,270
Supplies	3,130	783	206	4,119
Technology and database	6,943	1,736	457	9,136
Travel and business expense	5,958	1,488	392	7,838
Auto maintenance and insurance	2,562	640	169	3,371
Training/professional development expense	4,779	1,195	314	6,288
Contract and professional fees	12,427	-	-	12,427
Marketing and promotion	3,396	849	223	4,468
Board functions	610	152	40	802
Liability insurance	1,653	413	109	2,175
Postage and shipping	964	241	63	1,268
Rent	15,960	3,990	1,050	21,000
Telephone	2,159	540	142	2,841
Outside printing and copier	4,836	1,209	318	6,363
FOTR-ARC re-org investigation	429	107	28	564
Bank and credit card fees	685	171	45	901
Miscellaneous expenses	752	188	50	990
Depreciation	3,453	864	227	4,544
<b>Totals</b>	<b>\$ 324,801</b>	<b>\$ 161,075</b>	<b>\$ 26,343</b>	<b>\$ 512,219</b>
				<b>\$ 387,452</b>

**Friends of the Rouge  
Statement of Cash Flows  
December 31, 2017**

**With Comparative Totals for the Year Ended December 31, 2016**

	2017	2016
<b>Cash Flows From Operating Activities</b>		
Increase (decrease) in net assets	\$ 423,472	\$ (20,255)
Adjustments to reconcile net assets to net cash from operating activities:		
(Gains) losses on investments	(31,304)	2,244
Depreciation	4,544	3,142
(Increase) decrease in assets:		
Grants and promises to give	(238,127)	(6,603)
Other receivables	(2,930)	-
Prepaid expenses	(1,600)	323
Increase (decrease) in liabilities:		
Accounts payable	(7,189)	3,948
Accrued expenses	8,212	(980)
Refundable advances	-	(9,000)
<b>Net Cash Provided By (Used In) Operating Activities</b>	<b>155,078</b>	<b>(27,181)</b>
<b>Cash Flows From Investing Activities</b>		
Purchase of fixed assets	(16,423)	(3,978)
Purchase of investments	(742,138)	(16,931)
Proceeds from sales of investments	755,283	62,000
<b>Net Cash Provided By (Used In) Investing Activities</b>	<b>(3,278)</b>	<b>41,091</b>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	151,800	13,910
<b>Cash and Cash Equivalents at Beginning of Year</b>	93,086	79,176
<b>Cash and Cash Equivalents at End of Year</b>	<b>\$ 244,886</b>	<b>\$ 93,086</b>
<b>Supplemental disclosure:</b>		
<b>Cash paid for interest</b>	\$ -	\$ -
<b>Cash paid for income taxes</b>	\$ -	\$ -
<b>Non-Cash Investing Activities:</b>		
<b>Software donated in-kind</b>	<b>\$ 8,616</b>	<b>\$ -</b>

See Notes to the Financial Statements

**Friends of the Rouge**  
**Notes to the Financial Statements**  
**December 31, 2017 and 2016**

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**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 – Financial statement presentation follows the requirements of the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). The Organization is required to report information regarding its financial position and activities according to three classes of net assets as follows:

Unrestricted net assets consist of resources that are neither permanently restricted nor temporarily restricted by donor-imposed stipulations.

Temporarily restricted net assets consist of resources of which the use by the Organization is limited by donor-imposed stipulations, which either expire by the passage of time or can be removed by meeting certain requirements.

Permanently restricted net assets consist of donor-imposed restrictions to hold assets indefinitely. Earnings on permanently restricted net assets are classified as unrestricted investment income unless specifically restricted by the donor. There were no permanently restricted net assets as of December 31, 2017.

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.

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, 2017 and 2016**

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**NOTE 2 – Summary of Significant Accounting Policies (continued)**

Receivables – Receivables consist 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.

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.

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 both reported as unrestricted support. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are classified as unrestricted net assets 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 \$10,822 and \$0 of donated goods and materials for the years ended December 31, 2017 and 2016, 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. Indirect costs have been allocated between the various programs and supporting services based on estimates by management. Although the methods of allocation used are considered appropriate, other methods could be used that would produce different results.

Advertising and promotion – Advertising and promotion expenditures are charged to expense as incurred. Advertising and promotion expenses for the years ended December 31, 2017 and 2016, were \$4,468 and \$5,132, 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 2014. Management has evaluated FASB ASC 740, *Income Taxes*, and has concluded it has no uncertain positions.

Reclassifications – Certain revenue and expense accounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

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, 2017, was \$0. The Organization has not experienced any losses with respect to uninsured cash balances.

**Friends of the Rouge**  
**Notes to the Financial Statements**  
**December 31, 2017 and 2016**

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**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, 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, 2017, was \$0. The Organization has not experienced any losses with respect to uninsured deposits.

Revenue – Concentrations of revenue include grant funds received from a foundation totaling \$462,190, which made up approximately 49% of total revenue for the year ended December 31, 2017.

Receivables – Concentrations of accounts receivable include a grant receivable from a foundation totaling \$210,000, which made up approximately 73% of the total grants receivable at December 31, 2017.

**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 has a lease agreement for office space effective March 2013 through February 2018. Monthly lease payments are \$1,750. Lease expense for both years ending December 31, 2017 and 2016, was \$21,000.

Office equipment – The Organization has a lease agreement for office equipment effective April 2016 through July 2021. Monthly lease payments are \$326. Future minimum rental commitments under this lease are as follows:

December 31,	
2018	\$ 3,912
2019	3,912
2020	3,912
2021	1,956
Total	<u>\$ 13,692</u>

Lease expense for the years ended December 31, 2017 and 2016, was \$4,720 and \$3,657, respectively.

**NOTE 6 – 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, 2017 and 2016, was \$4,345 and \$4,381, respectively.

**NOTE 7 – 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 inconformity 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, 2016, from which the summarized information was derived.

**Friends of the Rouge**  
**Notes to the Financial Statements**  
**December 31, 2017 and 2016**

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**NOTE 8 – Investments**

Investments consisted of the following as of December 31, 2017 and 2016:

	2017	2016
Cash and money market funds	\$ 32,527	\$ 216
Equities	168,799	-
Fixed income	99,724	-
Mutual funds	77,283	463,992
Total	\$ 378,333	\$ 464,208

Investment income for the years ended December 31, 2017 and 2016, is as follows:

Interest and dividends	\$ 8,815	\$ 11,778
Realized gains (losses)	8,908	5,171
Unrealized gains (losses)	18,177	(2,244)
Management fees	(1,767)	-
Total investment income	\$ 34,133	\$ 14,705

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 9 – 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.

As of December 31, 2017, management considers all investments to be level 1 in the fair value hierarchy. There were no transfers between levels during the years ended December 31, 2017 and 2016.

**Friends of the Rouge**  
**Notes to the Financial Statements**  
**December 31, 2017 and 2016**

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**NOTE 10 – Restrictions on Net Assets**

Temporarily restricted – As of December 31, 2017 and 2016, temporarily restricted net assets were restricted as follows:

<u>Program Funded</u>	<u>2017</u>	<u>2016</u>
Rain Gardens to the Rescue	\$ 330,000	\$ -
Phase II Implementation of the Rouge River Trail	76,660	-
	<u>\$ 406,660</u>	<u>\$ -</u>

Per the Organization’s revenue recognition policy, contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are reported as unrestricted support. Since there were no temporarily restricted net asset at the year ended December 31, 2016, there were no assets released from restrictions on the statement of activities and changes in net assets.

Board designated – In July 2017, the Board of Directors elected to designate a portion of the Organization’s unrestricted net assets into an endowment fund held with the Community Foundation of Southeast Michigan (Foundation). The Foundation has been granted variance power by the Organization. The agreement between the Foundation and Organization stipulates that the original contribution of \$100,000 must be maintained in the endowment at all times. Endowment funds changed during the year ended December 31, 2017, as follows:

Endowment fund net assets at beginning of year	\$ -
Contributions to endowment	100,000
Unrealized gain (loss)	4,219
Investment fees	<u>(185)</u>
Endowment fund net assets at end of year	<u>\$ 104,034</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.

**NOTE 11 – Subsequent Events**

Office lease – In March 2018, the Organization executed a new 60-month lease agreement for office space beginning on May 1, 2018. Under the new lease agreement, monthly rent payments are \$3,060 for the first two years of the lease, \$3,152 for the third year, \$3,247 for the fourth year, and \$3,344 for the fifth year.

Office furniture financing – In June 2018, the Organization executed a new 60-month financing agreement for the purchase of office equipment. The agreement is effective July 1, 2018 with three months concessions followed by 57 equal payments of \$1,769 per month. The imputed interest rate on this financing agreement is 6.58%.