Friends of the Rouge

Financial Statements

August 31, 2012

With Comparative Totals
For the Year Ended August 31, 2011

COLE, NEWTON & DURAN

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of financial position of Friends of the Rouge as of August 31, 2012 and the related statements of activities and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the organization's management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized financial information has been derived from Friends of the Rouge August 31, 2011 financial statements which were audited by us and in our report dated January 10, 2012, we expressed an unqualified opinion on those financial statements.

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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 August 31, 2012, 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.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underling accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

COLE, NEWTON & DURAN

Cole, Newton & Duran

December 3, 2012

Friends of the Rouge

Statement of Financial Position

August 31, 2012

With Comparative Totals for the Year Ended August 31, 2011

ASSETS

	2012	2011
CURRENT ASSETS		
Cash and cash equivalents	$ 621,737	$ 227,981
Investments	-	232,151
Grant reimbursements receivable	64,274	82,090
Grant receivable-promise to give	1,479	76,479
Prepaid expenses	2,929	4,139
Other current assets	-	-
TOTAL CURRENT ASSETS	690,419	622,840
PROPERTY AND EQUIPMENT		
Furniture, fixtures and equipment	93,324	86,810
Less accumulated depreciation	(82,720)	(78,992)
NET PROPERTY AND EQUIPMENT	10,604	7,818
OTHER ASSETS		
Investment-annuity	-	126,228
TOTAL ASSETS	$ 701,023	$ 756,886

LIABILITIES AND NET ASSETS

	2012	2011
CURRENT LIABILITIES		
Accounts payable	$ 437	$ -
Accrued expenses	10,487	8,410
TOTAL CURRENT LIABILITIES	10,924	8,410
NET ASSETS		
Unrestricted	655,099	638,476
Temporarily restricted	35,000	110,000
TOTAL NET ASSETS	690,099	748,476
TOTAL LIABILITIES AND NET ASSETS	$ 701,023	$ 756,886

Friends of the Rouge

Statements of Activities and Changes in Net Assets

For the Year Ended August 31, 2012

With Comparative Totals for the Year Ended August 31, 2011

	2012			2011
	Unrestricted	Temporarily Restricted	Totals	Totals
SUPPORT AND REVENUE				
Contributions	$ 56,019	$ -	$ 56,019	$ 73,664
In-kind donations	1,895	-	1,895	9,386
Grants	238,532	-	238,532	239,931
Membership dues	17,390	-	17,390	15,260
Interest income	3,545	-	3,545	3,509
Realized and unrealized gains on investments	18,574	-	18,574	22,142
Special events and appeals	32,591	-	32,591	38,851
Gain on disposal of equipment	-	-	-	1,746
Miscellaneous income	3,895	-	3,895	4,146
Subtotal	372,441	-	372,441	408,635
Net assets released from restrictions	75,000	(75,000)	-	-
Total Support and Revenue	447,441	(75,000)	372,441	408,635
EXPENSES				
Salaries, wages and benefits	263,053	-	263,053	236,795
Project expenses	70,074	-	70,074	48,412
Supplies	11,290	-	11,290	11,637
Travel and entertainment	2,945	-	2,945	4,086
Auto maintenance	1,815	-	1,815	2,616
Training expense	545	-	545	694
Contract and professional fees	12,325	-	12,325	12,393
Membership meeting and related expenses	2,182	-	2,182	3,789
Board functions	606	-	606	1,668
Insurance	4,003	-	4,003	6,211
Postage and shipping	4,153	-	4,153	3,237
Rent	18,996	-	18,996	18,996
Depreciation	3,728	-	3,728	8,307
Loss on disposition of asset	-	-	-	7,925
Outside printing and copier maintenance	7,652	-	7,652	6,170
Publications	4,559	-	4,559	3,960
Fund development expenses	852	-	852	2,092
Special event expenses	17,629	-	17,629	19,875
Other fundraising expenses	1,125	-	1,125	1,899
Bank charges and miscellaneous expense	604	-	604	1,914
Telephone	2,682	-	2,682	3,104
Total Expenses	430,818	-	430,818	405,780
CHANGE IN NET ASSETS	16,623	(75,000)	(58,377)	2,855
NET ASSETS-BEGINNING OF YEAR	638,476	110,000	748,476	745,621
NET ASSETS-END OF YEAR	$ 655,099	$ 35,000	$ 690,099	$ 748,476

See Accompanying Notes to Financial Statements.

Friends of the Rouge

Statement of Cash Flows

For the Year Ended August 31, 2012

With Comparative Totals for the Year Ended August 31, 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	$ (58,377)	$ 2,855
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,728	8,307
Net gains and losses on disposal of assets	-	6,179
Net unrealized and realized (gains) losses on investments	(18,574)	(22,142)
In-kind donation of equipment	-	(3,670)
Decrease (increase) in operating assets:		
Grant reimbursements receivable	17,816	(20,224)
Grant receivable-promise to give	75,000	(6,479)
Prepaid expenses	1,210	3,908
Other current assets	-	1,844
(Decrease) increase in operating liabilities:		
Accounts payable and accrued expenses	2,514	(460)
Deferred revenue	-	(19,659)
Total Adjustments	81,694	(52,396)
Net Cash Provided By (Used In) Operating Activities	23,317	(49,541)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of equipment	-	3,179
Purchase of equipment	(6,514)	(4,860)
Proceeds from sales of investments	376,953	-
Purchase of investments	-	(3,182)
Net Cash Provided By (Used In) Investing Activities	370,439	(4,863)
NET INCREASE IN CASH AND CASH EQUIVALENTS	393,756	(54,404)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	227,981	282,385
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 621,737	$ 227,981

Supplemental Cash Flows Disclosures:

	2012	2011
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -

Friends of the Rouge
Notes to Financial Statements
August 31, 2012
With Comparative Information for August 31, 2011

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization – 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.

The following accounting principles and policies generally accepted in the United States of America followed by the organization:

Basis of Accounting – The accrual basis of accounting has been adopted for purposes of financial reporting.

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.

Property and Equipment – The Organization capitalizes all expenditures for property and equipment in excess of $1,000. Property and equipment are recorded at cost and depreciated over the estimated useful life of the underlying asset. 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 August 31, 2012 and 2011 amounted to $3,728 and $8,307 respectively.

Contributed Support – The Organization recognizes all contributed support received as income in the period received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows. Promises to give as of August 31, 2012, are all considered collectible within one year.

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. Other restricted gifts are reported as restricted support and temporarily or permanently restricted net assets. When a donor restriction expires, that is, when a stipulated time restriction ends or the purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions.

Conditional contributions are recorded as revenue when the condition set by the donor is substantially met. Conditional contributions received in advance are reported as deferred revenue.

Use of Estimates – The preparation of financial statements in conformity with the United States generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Grants Receivable – Amounts due to the Organization from Wayne County are recorded on a conditional, cost-reimbursement basis. Management considers the amounts to be fully collectible; accordingly, no allowance for doubtful accounts has been provided.

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Program Service Revenue – 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.

In-Kind Contributions – Use of workshop facilities, donated professional services and donated goods and materials, are recorded at estimated fair value as revenue and expense in the amount of $1,895 and $9,386 for the years ended August 31, 2012 and 2011, respectively.

Classification of Net Assets – Net assets are classified as permanently restricted, temporarily restricted or unrestricted depending on the presence and characteristics of donor-imposed restrictions limiting the Organization's ability to use or dispose of contributed assets or the economic benefits embodied in these assets. Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets.

Permanently restricted net assets result from donor-imposed restrictions that limit the use of net assets in perpetuity. Earnings and gains and losses on restricted net assets are classified as unrestricted unless specifically restricted by the donor or applicable state law.

Functional Allocation of Expenses – The cost of providing program and support services have been reported on a functional basis in the schedule 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. The Organization incurred $32,221 and $35,824 of general and administrative expenses and $31,967 and $38,436 of fundraising expenses for the years ended August 31, 2012 and 2011 respectively. All other expenses pertain to program related services.

Cash and Cash Equivalents – The Organization considers all highly liquid investments with maturity of three months or less to be cash equivalents.

Concentrations of Credit Risk – Financial instruments that potentially subject the organization to concentrations of credit risk consist principally of temporary cash and marketable securities and an annuity.

Cash and cash equivalents on deposit during the year may exceed levels insured by the Federal Deposit Insurance Corporation amount of $250,000. At times during the year, the Organization's deposits may exceed the insurance amount. The Organization has not experienced any losses with regards to uninsured deposits.

Advertising – Advertising expenditures are charged to expense as incurred.

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

2. 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 2009.

3. OPERATING LEASES

Office space
The Organization has extended a lease agreement for office space through September, 2012. Monthly lease payments are $1,583. Future minimum rental commitments under this lease are as follows:

Year ending August 31, 2013	$ 1,583

Office equipment
The Organization entered an agreement for a 39-month lease through June, 2013, with monthly payments of $287. Future minimum rental commitments under this lease are as follows:

Year ending August 31, 2013	$ 2,870

4. GRANT AWARDS

The Organization recognized approximately $171,295 and $112,500 in grant revenue for the years ended August 31, 2012 and 2011, respectively, from Wayne County, for the purpose of establishing educational programs that promote preservation and restoration of the Rouge River watershed. These awards were granted to the Organization on a conditional, cost-reimbursement basis. In the years ended August 31, 2012 and 2011, the Organization received approximately $67,237 and $127,400, respectively, from other grant sources. Funds received in advance of qualifying expenses are reported as deferred revenue. Grants (promises to give) received with timing restrictions are classified as temporarily restricted revenue in the year in which the grant was received, and are reclassified to unrestricted revenue when the time restrictions expire.

5. INVESTMENTS - MUTUAL FUNDS

Investments are stated at fair value, and consist of mutual funds as follows:

	2012		2011	
	Cost	Fair Value	Cost	Fair Value
	$ -0-	$ -0-	$215,362	$232,151
Realized and unrealized gains (losses)		$ 18,574		$ 22,142

All investments were sold during the year ended August 31, 2012.

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.

6. INVESTMENT – ANNUITY

The Organization's investment – annuity represents a $100,000 original value annuity together with accumulated interest. The annuity was redeemed during the year ended August 31, 2012.

7. FAIR VALUE MEASUREMENT

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 the Organization 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 and have the highest priority. The Organization considers cash, cash equivalents, including Certificate of Deposits, and publicly traded equities 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 or liability, either directly or indirectly. Level 2 inputs may include: quoted prices for similar assets or liabilities in active markets. Quoted prices for identical or similar assets or liabilities in markets that are quoted at prices that are not immediately current, or when price quotations vary substantially either over time or among market makers for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates. The Organization considers corporate bonds, mutual and managed funds and annuities to be Level 2 inputs.

Level 3 Fair Value Measurement inputs are unobservable inputs for the asset or liability. Unobservable inputs shall be 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.

Due to the short-term nature of promises to give and receivables, their fair values approximate carrying values and are not prioritized among the fair value hierarchy in the table below.

The following table sets forth, by level within the fair value hierarchy, the Organization's investments at fair value as of August 31, 2011. All investments were sold during the year ended August 31, 2012.

Fair Value	Level 1	Level 2	Level 3
$ 126,228	$ -	$ 126,228	$ -
232,151	-	232,151	-
$ 358,379	$ -	$ 358,379	$ -

8. PENSION

A 401k plan is available to all eligible employees. The Organization matches 2% of salaries. Pension expense was \$4,286 and \$3,685 for the years ended August 31, 2012 and 2011, respectively.

9. PRIOR YEAR INFORMATION

The financial statements include certain prior year summarized financial information in total. That information should be read in conjunction with the Organization's financial statements for the year ended August 31, 2011, from which the summarized information was derived

Friends of the Rouge

Supplemental Information

For the Year Ended August 31, 2012

With Comparative Totals
For the Year Ended August 31, 2011

Friends of the Rouge

Schedule of Functional Expenses

For the Year Ended August 31, 2012

With Comparative Totals for the Year Ended August 31, 2011

	2012				2011
	Program	Management and General	Fundraising	Total	Totals
Salaries, wages and fringe benefits	$ 251,826	$ 7,091	$ 4,136	$ 263,053	$ 236,795
Project expenses	70,074	-	-	70,074	48,412
Supplies	9,145	1,355	790	11,290	11,637
Travel and entertainment	-	2,945	-	2,945	4,086
Auto maintenance	1,470	218	127	1,815	2,616
Training	-	545	-	545	694
Contract and professional fees	-	12,325	-	12,325	12,393
Membership meeting and related expenses	-	2,182	-	2,182	3,789
Board functions	-	606	-	606	1,668
Insurance	3,243	480	280	4,003	6,211
Postage and shipping	3,364	498	291	4,153	3,237
Rent	15,387	2,280	1,329	18,996	18,996
Depreciation	3,020	447	261	3,728	8,307
Loss on disposition of equipment	-	-	-	-	7,925
Outside printing and copier maintenance	6,657	612	383	7,652	6,170
Publications	-	-	4,559	4,559	3,960
Fund development expenses	-	-	852	852	2,092
Special event expenses	-	-	17,629	17,629	19,875
Other fundraising expenses	-	-	1,125	1,125	1,899
Bank charges and miscellaneous expense	256	326	22	604	1,914
Telephone	2,188	311	183	2,682	3,104
	$ 366,630	$ 32,221	$ 31,967	$ 430,818	$ 405,780

See Auditor's Report.