

THE REFUGEE EDUCATION CENTER

FINANCIAL STATEMENTS

For the years ended
December 31, 2016 and 2015

DRAFT

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INDEPENDENT AUDITOR'S REPORT

DATE

To the Board of Directors
The Refugee Education Center
Kentwood, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the Refugee Education Center, formerly the West Michigan Refugee Education and Cultural Center, which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities, functional expenses, and cash flows for the years 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 The Refugee Education Center as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated **DATE**, on our consideration of The Refugee Education Center's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Refugee Education Center's internal control over financial reporting and compliance.

Certified Public Accountants

FINANCIAL STATEMENTS

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STATEMENTS OF FINANCIAL POSITION

THE REFUGEE EDUCATION CENTER

December 31, 2016 and 2015

ASSETS

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Current Assets | | |
| Cash | \$ 123,505 | \$ 101,966 |
| Accounts receivable | 39,509 | 33,702 |
| Pledges receivable | 5,000 | 10,000 |
| Prepaid rent | 1,550 | 1,800 |
| Total Current Assets | 169,564 | 147,468 |
| Property and Equipment | | |
| Furniture and equipment | 27,357 | 27,357 |
| Leasehold improvements | 4,850 | 4,850 |
| | 32,207 | 32,207 |
| Less accumulated depreciation | (18,617) | (14,865) |
| Net Property and Equipment | 13,590 | 17,342 |
| Other Assets | | |
| Security deposit | 1,500 | 1,500 |
| Total Assets | \$ 184,654 | \$ 166,310 |
| LIABILITIES AND NET ASSETS | | |
| Liabilities | | |
| Accounts payable | \$ 1,596 | \$ 2,405 |
| Payroll withholdings payable | 1,594 | - |
| Total Current Liabilities | 3,190 | 2,405 |
| Net Assets | | |
| Unrestricted | 176,464 | 153,905 |
| Temporarily restricted | 5,000 | 10,000 |
| Total Net Assets | 181,464 | 163,905 |
| Total Liabilities and Net Assets | \$ 184,654 | \$ 166,310 |

STATEMENTS OF ACTIVITIES

THE REFUGEE EDUCATION CENTER
For the year ended December 31, 2016

| | Unrestricted | Temporarily Restricted | 2016 |
|---|-------------------|---------------------------|-------------------|
| Support and Revenue | | | |
| Grant income | \$ 251,011 | \$ - | \$ 251,011 |
| Corporate contributions | 37,799 | - | 37,799 |
| Individual and business contributions | 9,411 | - | 9,411 |
| Other contributions | 22,295 | - | 22,295 |
| Other income | 623 | - | 623 |
| Interest income | 144 | - | 144 |
| Planting Deeper Roots event, net of \$10,015 of expenses in 2016 | 17 | - | 17 |
| Assets released from restrictions | 5,000 | (5,000) | - |
| Total Support and Revenue | 326,300 | (5,000) | 321,300 |
| Expenses | | | |
| Program services | 227,033 | - | 227,033 |
| Management and general | 68,472 | - | 68,472 |
| Fundraising | 8,236 | - | 8,236 |
| Total Expenses | 303,741 | - | 303,741 |
| Change in Net Assets | 22,559 | (5,000) | 17,559 |
| Net Assets - beginning of year | 153,905 | 10,000 | 163,905 |
| Net Assets - end of year | \$ 176,464 | \$ 5,000 | \$ 181,464 |

STATEMENTS OF ACTIVITIES

THE REFUGEE EDUCATION CENTER
For the year ended December 31, 2015

| | Unrestricted | Temporarily Restricted | 2015 |
|---------------------------------------|-------------------|---------------------------|-------------------|
| Support and Revenue | | | |
| Grant income | \$ 229,923 | \$ 10,000 | \$ 239,923 |
| Corporate contributions | 57,163 | - | 57,163 |
| Individual and business contributions | 4,852 | - | 4,852 |
| Other contributions | 19,500 | - | 19,500 |
| In-kind contributions | 150 | - | 150 |
| Interest income | 100 | - | 100 |
| Assets released from restrictions | 5,000 | (5,000) | - |
| Total Support and Revenue | 316,688 | 5,000 | 321,688 |
| Expenses | | | |
| Program services | 240,614 | - | 240,614 |
| Management and general | 40,274 | - | 40,274 |
| Total Expenses | 280,888 | - | 280,888 |
| Change in Net Assets | 35,800 | 5,000 | 40,800 |
| Net Assets - beginning of year | 118,105 | 5,000 | 123,105 |
| Net Assets - end of year | \$ 153,905 | \$ 10,000 | \$ 163,905 |

STATEMENTS OF FUNCTIONAL EXPENSES

THE REFUGEE EDUCATION CENTER
For the year ended December 31, 2016

| | Program | Management and General | Fundraising | 2016 |
|--|-------------------|---------------------------|-----------------|-------------------|
| Payroll | \$ 141,396 | \$ 35,000 | \$ 2,500 | \$ 178,897 |
| Payroll taxes | 13,582 | 2,678 | 191 | 16,451 |
| Total Payroll and Payroll Taxes | 154,978 | 37,678 | 2,691 | 195,347 |
| Advancement | - | 8,318 | 5,545 | 13,863 |
| Bank fees | 1,510 | 367 | - | 1,877 |
| Direct client assistance | 1,813 | - | - | 1,813 |
| Cleaning expenses | 4,507 | 1,096 | - | 5,603 |
| Depreciation | 3,018 | 734 | - | 3,752 |
| Insurance | 2,128 | 1,419 | - | 3,547 |
| Interpretation services | 16,983 | - | - | 16,983 |
| Legal and professional expenses | - | 12,497 | - | 12,497 |
| Miscellaneous | - | 4,437 | - | 4,437 |
| Outside services | 6,008 | - | - | 6,008 |
| Printing and postage | 1,585 | - | - | 1,585 |
| Professional development | 6,224 | - | - | 6,224 |
| Rent | 16,824 | 1,926 | - | 18,750 |
| Summer program | 657 | - | - | 657 |
| Supplies | 5,796 | - | - | 5,796 |
| Telephone and internet | 3,012 | - | - | 3,012 |
| Transportation | 1,989 | - | - | 1,989 |
| Total Expenses | \$ 227,033 | \$ 68,472 | \$ 8,236 | \$ 303,741 |

STATEMENTS OF FUNCTIONAL EXPENSES

THE REFUGEE EDUCATION CENTER
For the year ended December 31, 2015

| | Program | Management and General | 2015 |
|--|-------------------|---------------------------|-------------------|
| Payroll | \$ 158,780 | \$ 18,462 | \$ 177,242 |
| Payroll taxes | 13,799 | 1,412 | 15,211 |
| Total Payroll and Payroll Taxes | 172,579 | 19,874 | 192,453 |
| Advancement | 2,412 | 1,886 | 4,298 |
| Bank fees | 2,072 | 239 | 2,311 |
| Direct client assistance | 384 | - | 384 |
| Cleaning expenses | 3,924 | 452 | 4,376 |
| Depreciation | 2,259 | 260 | 2,519 |
| Insurance | 1,958 | 1,331 | 3,289 |
| Legal and professional expenses | - | 12,208 | 12,208 |
| Miscellaneous | 170 | 1,420 | 1,590 |
| Outside services | 7,172 | - | 7,172 |
| Printing and postage | 4,687 | - | 4,687 |
| Professional development | 6,953 | - | 6,953 |
| Rent | 17,112 | 2,388 | 19,500 |
| Summer program | 601 | - | 601 |
| Supplies | 9,318 | - | 9,318 |
| Telephone and internet | 1,877 | 216 | 2,093 |
| Transportation | 6,386 | - | 6,386 |
| Volunteer expenses | 750 | - | 750 |
| Total Expenses | \$ 240,614 | \$ 40,274 | \$ 280,888 |

STATEMENTS OF CASH FLOWS

THE REFUGEE EDUCATION CENTER

For the years ended December 31, 2016 and 2015

| | 2016 | 2015 |
|---|-------------------|-------------------|
| Cash Flows from Operating Activities | | |
| Change in net assets | \$ 17,559 | \$ 40,800 |
| Adjustments to reconcile change in net assets to net cash provided by operating activities: | | |
| Depreciation | 3,752 | 2,519 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (5,807) | 2,920 |
| Pledges receivable | 5,000 | (10,000) |
| Prepaid rent | 250 | (300) |
| Accounts payable | (809) | (1,733) |
| Payroll withholdings payable | 1,594 | - |
| Net Cash Provided by Operating Activities | 21,539 | 34,206 |
| Cash Flows from Investing Activities | | |
| Purchase of property and equipment | - | (10,070) |
| Net Increase in Cash | 21,539 | 24,136 |
| Cash, beginning of year | 101,966 | 77,830 |
| Cash, end of year | \$ 123,505 | \$ 101,966 |

Note A – Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

The Refugee Education Center ("Organization"), formerly the West Michigan Refugee Educational & Cultural Center, is a Michigan not-for-profit corporation exempt from federal income taxes under Section 501(c) (3) of the Internal Revenue Code. Its primary program is supporting refugees and their families in gaining the skills necessary for successful integration into the community.

Financial Statement Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. In addition, the Organization is required to present a statement of cash flows.

Method of Accounting

The financial statements of the Organization are maintained on the accrual basis, recording revenue when earned rather than when received, and recording expenses when incurred rather than when paid.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from outstanding balances. Management has reviewed the balances that comprise the various categories of accounts receivable and determined such balances to be fully collectible. Accordingly, no provision for uncollectible accounts is included in the financial statements. If amounts become uncollectible, a provision for the potential loss will be charged to operations when that determination is made.

Pledges Receivable

Pledges receivable represent unconditional promises to give, consisting of individual, foundation, church and corporate sponsorships, and are recognized as revenues in the period promised and as assets, decreases in liabilities or expenses depending on the form of the benefits to be received. Unconditional promises to give are stated at the amount management expects to collect from outstanding balances, discounted to present value. The Organization uses the allowance method to account for uncollectible promises to give. The allowance is calculated using an estimated percentage of outstanding balances based on management's experience. Management provides for probable uncollectible amounts through a charge to earnings and credit to a valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to unconditional promises to give.

Conditional promises to give are recognized when the conditions upon which they depend are substantially met. There were no conditional promises to give at December 31, 2016 and 2015.

Note A – Nature of Organization and Summary of Significant Accounting Policies (Continued)**Property and Equipment**

Property and equipment are recorded at cost, if purchased or, if donated, at fair market value as of the date of the gift. Major improvements and betterments are capitalized; maintenance and repairs are expensed when incurred. Depreciation is computed principally on the straight-line method over the following useful lives of the assets:

| | |
|-------------------------|-------------|
| Furniture and equipment | 5 - 7 years |
| Leasehold improvements | 15 years |

Net Assets

The Organization reports information regarding its financial position and activities according to three classes of net assets:

- Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.
- Temporarily restricted net assets contain donor-imposed restrictions that permit the Organization to use or expend the assets as specified. Temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions when the restrictions are satisfied either by the passage of time or by actions of the Organization. However, if a restriction is fulfilled in the same period in which the contribution is received, the Organization reports the support as unrestricted.
- Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit the Organization to use or expend part or all of the income derived from the donated assets for specific purposes. Currently, there are no permanently restricted net assets.

Contributions

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence or nature of any donor restrictions. All donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions with donor imposed restrictions that are met in the same year as received or earned are reported as unrestricted income.

Note A – Nature of Organization and Summary of Significant Accounting Policies (Continued)

Functional Expenses

The costs to provide the various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are charged to programs and supporting services on the basis of periodic time and expense studies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income Tax Status

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization evaluates tax positions taken on its federal Exempt Organization Business Income Tax Returns in accordance with accounting principles generally accepted in the United States of America, which require that tax positions taken be more-likely-than-not to be sustained. Management believes that the Organization has no significant unrecognized tax benefits under that criterion. Penalties and interest, if any, assessed by income taxing authorities are included in operating expenses. The Organization's federal Exempt Organization Business Income Tax Returns are generally subject to examination by taxing authorities for three years after they were filed.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Subsequent Events

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through the date of the accompanying independent auditor's report, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

THE REFUGEE EDUCATION CENTER

December 31, 2016 and 2015

Note B – Temporarily Restricted Net Assets

The Organization's temporarily restricted net assets consist of the following:

| | 2016 | 2015 |
|-----------------------------------|----------|-----------|
| Restricted for future programming | \$ 5,000 | \$ 10,000 |

Note C – Line of Credit

The Organization had a \$25,000 unsecured line of credit with a bank which bore interest at 1.5% above the bank's prime lending rate. The line of credit matured on October 5, 2016 and has not been renewed. There were no outstanding borrowings on the line of credit at December 31, 2016 and 2015.

Note D – Lease

The Organization leases its facility from an unrelated party under an operating lease which expires on March 31, 2018. The lease requires monthly payments of \$1,500 with an increase based on the consumer price index in April 2017. Total rent expense was \$18,750 and \$19,500 for the years ended December 31, 2016 and 2015, respectively.

The following is a schedule of future minimum non-cancelable rental obligations as of December 31, 2016:

| | |
|------|------------------|
| 2017 | \$ 19,050 |
| 2018 | 4,800 |
| | <u>\$ 23,850</u> |

Note E – Reclassifications

Certain prior year financial statement amounts have been reclassified to conform to the current year's presentation.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

DATE

To the Board of Directors
The Refugee Education Center
Grand Rapids, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of The Refugee Education Center, which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated **DATE**.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Refugee Education Center's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of The Refugee Education Center's internal control. Accordingly, we do not express an opinion on the effectiveness of The Refugee Education Center's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Refugee Education Center's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Certified Public Accountants