



RAE & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

25 Braintree Hill Office Park | Suite 200
Braintree, MA 02184

1201 Westford Street | First Floor
Lowell, MA 01851

Phone: (888) 485-7444
www.raecpas.com

FLYING KITES, INC.

Financial Statements

Year Ended December 31, 2016

Mission Statement

At Flying Kites in Kenya, we are igniting the potential of vulnerable children. We believe that providing students with access to high quality education and holistic support is vital to alleviating suffering, increasing gender equality and promoting economic sustainability. By meeting the needs of the whole child, our integrative programs give students the tools they need to build their best lives and positively impact their families, communities and country.

www.flyingkites.org

FLYING KITES, INC.

Financial Statements

Year Ended December 31, 2016

Table of Contents

Independent Auditors' Report..... 1-2

Financial Statements:

Statement of Financial Position3

Statement of Activities.....4

Statement of Cash Flows5

Statement of Functional Expenses6

Notes to Financial Statements..... 7-13



RAE & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

25 Braintree Hill Office Park | Suite 200
Braintree, MA 02184

1201 Westford Street | First Floor
Lowell, MA 01851

Phone: (888) 485-7444
www.raecpas.com

Independent Auditors' Report

To the Board of Directors
Flying Kites, Inc.
Boston, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of Flying Kites, Inc. (a nonprofit organization), 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.

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 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 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 Flying Kites, Inc. as of December 31, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

Flying Kites, Inc.'s 2015 financial statements were audited by other auditors, whose report dated May 13, 2016 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, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

RAE & Associates, LLC

RAE & Associates, LLC
Braintree, Massachusetts
March 28, 2017

FLYING KITES, INC.
Statement of Financial Position

As of December 31, 2016

(with comparative totals as of December 31, 2015)

	<u>2016</u>	<u>2015</u>
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 822,249	\$ 284,652
Pledges receivable, current	47,500	47,500
Total current assets	<u>869,749</u>	<u>332,152</u>
Property and equipment, net	614,211	211,556
Security deposits	3,000	3,000
Pledges receivable, net of discount of \$1,160 and \$2,436 as of December 31, 2016 and 2015, respectively)	33,840	80,064
Total assets	<u>\$ 1,520,800</u>	<u>\$ 626,772</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,500	\$ 6,500
Total liabilities	<u>6,500</u>	<u>6,500</u>
Net assets:		
Unrestricted	1,099,024	492,708
Temporarily restricted	415,276	127,564
Total net assets	<u>1,514,300</u>	<u>620,272</u>
Total liabilities and net assets	<u>\$ 1,520,800</u>	<u>\$ 626,772</u>

FLYING KITES, INC.

Statement of Activities

For the Year Ended December 31, 2016

(with summarized comparative totals for the year ended December 31, 2015)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2016 Total</u>	<u>2015 Total</u>
Support and revenue:				
Individual contributions	\$ 350,909	\$ -	\$ 350,909	\$ 249,273
Programs donations:				
Ambassador Program	89,508	-	89,508	29,647
FK Adventure	146,199	-	146,199	84,075
Sponsorship Program	156,200	-	156,200	155,529
Capital campaign	-	504,040	504,040	-
Partnership Income	91,000	-	91,000	-
Events income	115,031	-	115,031	44,445
Contributed goods and services	298,835	-	298,835	68,530
Other revenue	8,943	-	8,943	-
Interest revenue	-	1,276	1,276	1,733
Net assets released from restrictions	<u>217,604</u>	<u>(217,604)</u>	<u>-</u>	<u>-</u>
 Total support and revenue	 <u>1,474,229</u>	 <u>287,712</u>	 <u>1,761,941</u>	 <u>633,232</u>
 Expenses:				
Program services	684,542	-	684,542	596,538
Fundraising	87,266	-	87,266	-
General and administration	<u>96,105</u>	<u>-</u>	<u>96,105</u>	<u>79,678</u>
 Total expenses	 <u>867,913</u>	 <u>-</u>	 <u>867,913</u>	 <u>676,216</u>
 Change in net assets	 606,316	 287,712	 894,028	 (42,984)
 Net assets at beginning of year	 <u>492,708</u>	 <u>127,564</u>	 <u>620,272</u>	 <u>663,256</u>
 Net assets at end of year	 <u>\$ 1,099,024</u>	 <u>\$ 415,276</u>	 <u>\$ 1,514,300</u>	 <u>\$ 620,272</u>

FLYING KITES, INC.

Statement of Cash Flows

For the Year Ended December 31, 2016

(with comparative totals for the year ended December 31, 2015)

	<u>2016</u>	<u>2015</u>
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ 894,028	\$ (42,984)
Adjustments to reconcile change in net assets to net cash provided by activities:		
Depreciation expense	11,629	7,213
Net present value discount	(1,276)	(1,733)
Change in:		
Pledges receivable	47,500	47,500
Security deposit	-	(3,000)
Accounts payable and accrued expenses	-	(5,000)
Net cash provided by operations	<u>951,881</u>	<u>1,996</u>
<i>Cash flows from investing activities:</i>		
Purchases of fixed assets	<u>(414,284)</u>	<u>-</u>
Net cash used in investing activities	<u>(414,284)</u>	<u>-</u>
Net change in cash and cash equivalents	537,597	1,996
Cash and cash equivalents, beginning of year	<u>284,652</u>	<u>282,656</u>
Cash and cash equivalents, end of year	<u>\$ 822,249</u>	<u>\$ 284,652</u>

FLYING KITES, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2016

(with summarized comparative totals for the year ended December 31, 2015)

	<u><i>Program Expenses</i></u>	<u><i>Fundraising Expenses</i></u>	<u><i>General and Administrative Expenses</i></u>	<u><i>2016 Total</i></u>	<u><i>2015 Total</i></u>
Salaries	\$ 61,458	\$ 15,625	\$ 40,625	\$ 117,708	\$ 147,845
Payroll taxes	4,702	1,195	3,108	9,005	11,310
Kenya expenses	466,331	-	-	466,331	308,981
Rents	-	2,460	22,140	24,600	19,424
Professional service fees	13,892	-	12,210	26,102	12,308
Meals	-	111	997	1,108	1,196
Merchant fees	2,149	20,047	-	22,196	12,748
Software expenses	3,888	8,525	-	12,413	8,525
Office supplies	-	-	1,182	1,182	1,036
Insurance expense	536	-	2,463	2,999	2,479
Miscellaneous expense	258	-	1,387	1,645	540
Guide-Trek fees	74,961	-	-	74,961	46,854
Postage and delivery	511	85	256	852	1,114
Telephone and internet	217	36	108	361	1,953
Advertising	2,580	2,581	-	5,161	5,012
Websites expenses	279	280	-	559	695
Fundraising events expense	-	35,795	-	35,795	15,990
Travel and meetings	4,730	526	-	5,256	2,463
Depreciation	-	-	11,629	11,629	7,213
In-kind contributions	48,050	-	-	48,050	68,530
	<u>\$ 684,542</u>	<u>\$ 87,266</u>	<u>\$ 96,105</u>	<u>\$ 867,913</u>	<u>\$ 676,216</u>
Total expenses					

FLYING KITES, INC.

Notes to Financial Statements

For the Year Ended December 31, 2016

(with summarized comparative totals for the year ended December 31, 2015)

Note 1 - Organization and Background.

Flying Kites, Inc. (the “Organization”) was organized in Rhode Island on November 17, 2006, as a not-for-profit corporation under the provisions of Rhode Island General Laws Chapter 7-6, as amended. Since opening its doors in 2007, the Organization has been on a journey to ignite the potential of orphaned and critically-poor Kenyan children, through its Home, School and LaunchPad Programs. The Organization’s work stands apart, and its impact is profound, due to the deep and long-term investment being made in the lives of young people. Through an emphasis on health and development, academic achievement, social and emotional well-being, and life skills, students are empowered to not only improve their own lives, but change the world. The Organization has rewritten the stories of dozens of young people and elevated the standards of care and education in the Kinangop region of the East African nation of Kenya.

The Organization moved its operations to Massachusetts in 2013 and reorganized as a not-for-profit corporation under Massachusetts General Laws in September 2013.

Programs:

School Program: The Organization runs a competitive primary school for vulnerable students in Njabini, Kenya, working in partnership with the Ministry of Education to offer the national Kenyan curriculum while supplementing it with holistic education. At its primary school, the Organization tracks student outcomes based on attendance, engagement, and exam performance by collecting baseline data on students at the beginning of each academic year and tracking their development in reading comprehension and math, using the Early Grade Reading Assessment (EGRA) and the Early Grade Math Assessment (EGMA). In addition to monitoring individual student's performance in core subjects, the Organization is committed to developing and capturing students’ critical thinking skills, communication, and creativity.

The Organization provides scholarships to secondary school for the children in its care. Students' academic progress through: national exams, class placement, school reports/grades, attendance, participation, and self-surveys completed by secondary students.

LaunchPad Program: The LaunchPad program was developed to provide students with the confidence to strategically navigate life after high school, the ability to develop healthy and safe relationships, and the tools to establish a life trajectory of self-sufficiency and participate in their country’s economic development. LaunchPad is intended to provide job training, college counseling, mentoring, workshops, and internship opportunities to secondary students enrolled in the secondary scholarship program. Workshop topics include personal finances, computer literacy, sexual and reproductive health, stress management, conflict resolution, civic engagement, and more. Students participate in the LaunchPad Program throughout the year, working alongside a live-in social worker and pursuing internships, job shadowing, trainings, and volunteering on school holidays.

Home Program: Through its residential program, the Organization cares for orphaned children who have experienced homelessness or abuse. The Organization works with a team of consultants, doctors, nurses and experts in childhood development to ensure they meet the medical and emotional needs of the children in their care. The child to staff ratio for this program is approximately 1:5.

FLYING KITES, INC.

Notes to Financial Statements

For the Year Ended December 31, 2016

(with summarized comparative totals for the year ended December 31, 2015)

Note 1 - Organization and Background (Continued)

Farm Program: As part of its commitment to health and sustainability, The Organization cultivates large farms on its two Njabini sites to provide fresh produce for the home and school. The Organization's expansive farm currently provides nutritious food for its home and school, as well as surplus crop that is sold locally to supplement other expenses. Additionally, cows are housed in a non-grazing unit, whereby their manure powers the Organization's kitchen through biogas technology, reducing reliance on kerosene and firewood.

Awareness in Action:

Volunteer Program: The Organization runs guided trips for volunteers to visit and contribute to its work in Njabini. These trips are 10 days long, and include lots of activities and outings, and numerous hands-on projects. In addition to these guided trips, they welcome volunteers for various lengths of stays, depending on their skills and availability. Volunteers pay for their room and board and fundraise to support the Organization's work. The Volunteer Program ended in the fourth quarter of 2016.

Adventure Challenges: FK Adventures allow participants to have unforgettable experiences by either hiking Mt. Kilimanjaro or visiting Maasai Mara, Africa's greatest wildlife reserve, for a safari. Additionally, participants spend time volunteering with the Organization's programs in Kenya and raise funds that directly support its work.

Child Sponsorship: The Sponsorship Program ensures that students receive access to exemplary care and education, and builds lasting relationships. Sponsorship funds help cover activities associated with caring for the children at Flying Kites, including food, salaries for teachers and house-mothers, clothes, school supplies, doctors' visits, and much more.

Note 2 - Summary of Significant Accounting Policies

Basis of Accounting and Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting, whereby revenue is recognized when earned and expenses are recognized when incurred. Unconditional support is recognized when notification of the contribution is received.

Not-for-profit accounting requires that net assets, revenues, expenses, and gains and losses be classified as unrestricted, temporarily restricted, or permanently restricted based on the existence or absence of donor-imposed restrictions.

Expenses are reported as decreases in unrestricted net assets. Expirations of temporary restrictions recognized as net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications from temporarily restricted net assets to unrestricted net assets.

Temporary restrictions on gifts to acquire long-lived assets are considered met in the period in which the assets are placed in service. There were no temporarily or permanently restricted net assets as of December 31, 2016.

FLYING KITES, INC.

Notes to Financial Statements

For the Year Ended December 31, 2016

(with summarized comparative totals for the year ended December 31, 2015)

Note 2 - Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents

For the purposes of the statements of cash flows, the Organization considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates 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 and assumptions.

Property and Equipment

Property, equipment, furnishing, and improvement purchases in excess of \$500 are capitalized at cost, if purchased, or if donated, at fair market value at the date of receipt. Expenditures for maintenance, repairs and renewals are charged to expense as incurred; whereas major betterments are capitalized as additions to property and equipment. Depreciation of property and equipment is computed using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and constructions	39 years
Furniture and fixtures	3-5 years
Computers and equipment	3-5 years

Revenue Recognition

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Contributions subject to donor-imposed stipulations that are met in the same reporting period are reported as unrestricted support. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved, when such amounts are considered material.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, temporarily restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

FLYING KITES, INC.

Notes to Financial Statements

For the Year Ended December 31, 2016

(with summarized comparative totals for the year ended December 31, 2015)

Note 2 - Summary of Significant Accounting Policies (Continued)

Contributions

The Organization reports gifts of land, building, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support.

The Organization follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards, *Accounting for Contributions Received and Contributions Made*. This financial accounting standard requires that contributions be recorded as receivables and revenues and requires the Organization to distinguish between contributions received for each net asset category in accordance with donor-imposed restrictions. Contributions may include gifts of cash, collection items, or promises to give. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets depending on the nature of the restriction until restriction conditions are satisfied, at which time temporarily restricted net assets are reclassified to unrestricted net assets.

Contributed Goods and Services

The Organization records various types of in-kind support including contributed facilities and professional services. Contributed professional services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received. The amounts reflected in the accompanying financial statements as “in-kind revenue” are offset by amounts included in expenses or fixed assets.

Additionally, the Organization may receive amounts of skilled, contributed time, which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time has not been determined and is not reflected in the accompanying financial statements.

Allowance for Doubtful Accounts

When necessary, the Organization provides an allowance for doubtful accounts equal to estimated bad debt losses. The estimated losses are based on historical collection experience together with a review of the current status of existing receivables. Note 6 provides detailed information on the status and net present value of pledges receivable as of December 31, 2016 and 2015. All pledges are expected to be collected in full; therefore no allowance for bad debt was recorded as of December 31, 2016 and 2015.

Advertising

Advertising costs are expensed as incurred. Advertising expenses incurred by the Organization for the years ended December 31, 2016 and 2015 were \$5,161 and 5,012, respectively.

FLYING KITES, INC.

Notes to Financial Statements

For the Year Ended December 31, 2016

(with summarized comparative totals for the year ended December 31, 2015)

Note 2 - Summary of Significant Accounting Policies (Continued)

Income Tax Status

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(a) and has been classified as an Organization that is not a private foundation under Section 509(a)(1). The Organization is also exempt from Massachusetts and Rhode Island state taxes.

The Organization has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements, and no interest and penalties have been recorded in the accompanying financial statements related to uncertain tax positions.

Functional Expenses

The Organization allocates its expenses on a functional basis among its various programs and support services. Expenses are allocated among program and supporting services directly or on the basis of time records and utilization estimates made by the Organization's management. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Center. Expenses that can be identified with a specific program and/or support service are allocated directly according to their natural expenditure classification.

Promises To Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Note 3 - Concentrations of Credit Risk

The Organization maintains its cash balances in bank deposit accounts, which at times may exceed federally insured limits. The Organization has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk on its cash and cash equivalents.

Management monitors and evaluates the allowance for doubtful accounts to ensure that receivables are stated at their net realizable value. Management believes that the remaining receivable balances do not represent any significant credit risk to the Organization.

Note 4 - Temporarily Restricted Net assets

Temporarily restricted net assets of \$415,276 at December 31, 2016 consisted of 81,340 in pledges receivable with time restrictions, and \$333,936 in capital campaign contribution funds. Temporarily restricted net assets were \$127,564 at December 31, 2015 and consisted of pledges receivable with time related restrictions.

FLYING KITES, INC.

Notes to Financial Statements

For the Year Ended December 31, 2016

(with summarized comparative totals for the year ended December 31, 2015)

Note 5 - Fixed Assets

Fixed assets consisted of the following as of December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 69,054	69,054
Buildings and improvements	566,105	158,126
Furniture and equipment	<u>28,909</u>	<u>22,604</u>
	664,068	249,784
Less accumulated depreciation	<u>(49,857)</u>	<u>(38,228)</u>
	<u>\$ 614,211</u>	<u>\$ 211,556</u>

Depreciation expense was \$11,629 and \$7,213 for the years ended December 31, 2016 and 2015, respectively.

Note 6 - Pledges Receivable

Pledges receivable represents unconditional promises to give. Unconditional promises to give are recorded as receivables and revenue when received. The Organization distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows.

Pledges are expected to be realized in the following periods:

In one year or less	\$ 47,500
Between one year and five years	<u>35,000</u>
	82,500
Less:	
Net present value discount, at 1%	<u>(1,160)</u>
	<u>\$ 81,340</u>

Note 7 – Related Party Transactions

The Organization's executive director and her spouse (who was also an employee of the Organization through March 2016) sit on the Organization's Board of Directors, and were paid wages of \$62,500 and \$5,208, respectively, in 2016, and \$61,081 and \$28,581, respectively, in 2015.

Note 8 - Leases

In January 2015 the Organization entered into a tenant-at-will lease agreement for new office space located in Boston, Massachusetts, through January 1, 2018. During 2016 the Organization moved to larger office space, and monthly rent payments under the lease increased from \$1,530 to \$2,244 as of April 1, 2016. Rent expense for the years ended December 2016 and 2015 was \$24,600 and \$19,372, respectively.

FLYING KITES, INC.

Notes to Financial Statements

For the Year Ended December 31, 2016

(with summarized comparative totals for the year ended December 31, 2015)

Note 9 - Contributed goods and services

The Organization received donated goods and services valued at \$298,835 and \$68,530 during for the years ended June 30, 2016 and 2015, respectively. These amounts are included in the contributed goods and services revenue, and program expense line items on the accompanying statements of activities, and in property and equipment on the accompanying statements of position.

Note 10 – New Accounting Pronouncement

In August 2016, The Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The ASU incorporates part of a multi-phased project undertaken by the FASB to improve the current net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity's liquidity, financial performance, and cash flows.

The ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017, and for interim periods within fiscal years beginning after December 15, 2018. Early application is permitted and retrospective application for all periods is required, with certain limited exceptions to periods presented before the period of adoption. The adoption of the ASU is expected to have a significant impact on the financial statements when it is adopted effective July 1, 2018.

In addition, FASB issued ASU No. 2016-02, *Leases*. The ASU, which becomes effective for the June 30, 2021 year, requires all leases to be reflected as assets and liabilities on the statement of financial position.

Note 9 - Subsequent Events

Subsequent events have been evaluated through March 28, 2017, which is the date the financial statements were available to be issued.