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**FLYING KITES, INC.**

*Financial Statements*

*Year Ended December 31, 2015*

**FLYING KITES, INC.**

***Financial Statements***

***Year Ended December 31, 2015***

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*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, 2015, 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, 2015, 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**

We have previously audited Flying Kites, Inc.'s 2014 financial statements, and our report dated September 8, 2015, 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, 2014, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*NE Kelly & Associates LLC*

NE Kelly & Associates, LLC  
Boston, Massachusetts  
May 13, 2016

**FLYING KITES, INC.**  
**Statement of Financial Position**  
**As of December 31, 2015**

*(with comparative totals as of December 31, 2014)*

	<u>2015</u>	<u>2014</u>
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 284,652	\$ 282,656
Pledges receivable, current	47,500	47,500
Total current assets	<u>332,152</u>	<u>330,156</u>
Property and equipment, net	211,556	218,769
Security deposits	3,000	-
Pledges receivable, net of discount of \$2,436 and \$4,169 as of December 31, 2015 and 2014, respectively)	80,064	125,831
Total assets	<u>\$ 626,772</u>	<u>\$ 674,756</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 6,500	\$ 11,500
Total liabilities	<u>6,500</u>	<u>11,500</u>
Net assets:		
Unrestricted	492,708	489,925
Temporarily restricted	127,564	173,331
Total net assets	<u>620,272</u>	<u>663,256</u>
Total liabilities and net assets	<u>\$ 626,772</u>	<u>\$ 674,756</u>

**FLYING KITES, INC.**

***Statement of Activities***

***For the Year Ended December 31, 2015***

*(with summarized comparative totals for the year ended December 31, 2014)*

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>2015 Total</i>	<i>2014 Total</i>
Support and revenue:				
Individual contributions	\$ 249,273	\$ -	\$ 249,273	336,173
Programs donations:				
Ambassador Program	29,647	-	29,647	\$ 55,816
FK Adventures	84,075	-	84,075	64,636
Sponsorship Program	155,529	-	155,529	134,294
Legacy Scholarship	-	-	-	35,000
Events income	44,445	-	44,445	16,065
Contributed goods and services	68,530	-	68,530	
Interest revenue	-	1,733	1,733	-
Net assets released from restrictions	47,500	(47,500)	-	-
	<u>678,999</u>	<u>(45,767)</u>	<u>633,232</u>	<u>641,984</u>
 Expenses:				
Program services	596,538	-	596,538	356,318
General and administration	79,678	-	79,678	50,251
	<u>676,216</u>	<u>-</u>	<u>676,216</u>	<u>406,569</u>
 Change in net assets	2,783	(45,767)	(42,984)	235,415
 Net assets at beginning of year	<u>489,925</u>	<u>173,331</u>	<u>663,256</u>	<u>427,841</u>
 Net assets at end of year	<u>\$ 492,708</u>	<u>\$ 127,564</u>	<u>\$ 620,272</u>	<u>\$ 663,256</u>

**FLYING KITES, INC.**

***Statement of Cash Flows***

***For the Year Ended December 31, 2015***

*(with comparative totals for the year ended December 31, 2014)*

	<u>2015</u>	<u>2014</u>
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ (42,984)	\$ 235,415
Adjustments to reconcile change in net assets to net cash provided by activities:		
Depreciation expense	7,213	6,300
Net present value discount	(1,733)	4,169
Change in:		
Pledges receivable	47,500	(177,500)
Security deposit	(3,000)	-
Accounts payable and accrued expenses	(5,000)	5,500
Net cash provided by operations	<u>1,996</u>	<u>73,884</u>
<i>Cash flows from investing activities:</i>		
Purchases of fixed assets	<u>-</u>	<u>(14,186)</u>
Net cash used in investing activities	<u>-</u>	<u>(14,186)</u>
Net change in cash and cash equivalents	1,996	59,698
Cash and cash equivalents, beginning of year	<u>282,656</u>	<u>222,958</u>
Cash and cash equivalents, end of year	<u>\$ 284,652</u>	<u>\$ 282,656</u>

**FLYING KITES, INC.**

***Statement of Functional Expenses***

***For the Year Ended December 31, 2015***

*(with summarized comparative totals for the year ended December 31, 2014)*

	<u>Program</u> <u>Expenses</u>	<u>General and</u> <u>Administrative</u> <u>Expenses</u>	<u>2015 Total</u>	<u>2014 Total</u>
Salaries	\$ 107,421	\$ 40,424	\$ 147,845	\$ 131,777
Payroll taxes	8,218	3,092	11,310	10,081
Kenya expenses	308,981	-	308,981	169,825
Rents	-	19,372	19,372	12,750
Professional service fees	8,634	3,674	12,308	19,888
Meals	-	1,196	1,196	1,875
Training	-	-	-	400
Merchant fees	12,748	-	12,748	9,692
Software expenses	8,525	-	8,525	2,654
Office supplies	684	352	1,036	2,759
Insurance expense	93	2,386	2,479	513
Miscellaneous expense	60	480	540	4,063
Guide-Trek fees	46,854	-	46,854	14,118
Postage and delivery	656	458	1,114	914
Telephone and internet	1,953	-	1,953	4,165
Advertising	5,012	-	5,012	1,863
Websites expenses	695	-	695	2,857
Events expenses	12,413	-	12,413	1,540
Fundraising expense	3,577	-	3,577	-
Travel and meetings	1,484	979	2,463	8,372
Utilities	-	52	52	163
Depreciation	-	7,213	7,213	6,300
In-kind contributions	68,530	-	68,530	-
	<u>68,530</u>	<u>-</u>	<u>68,530</u>	<u>-</u>
Total expenses	<u>\$ 596,538</u>	<u>\$ 79,678</u>	<u>\$ 676,216</u>	<u>\$ 406,569</u>



# FLYING KITES, INC.

## *Notes to Financial Statements*

### *For the Year Ended December 31, 2015*

*(with summarized comparative totals for the year ended December 31, 2014)*

#### **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:**

**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.

**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.

# FLYING KITES, INC.

## *Notes to Financial Statements*

### *For the Year Ended December 31, 2015*

*(with summarized comparative totals for the year ended December 31, 2014)*

#### **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.

**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 are presented on the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America ("GAAP").

The financial statements presentation follows the requirements of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards, Financial Statements of Not-for-Profit Organizations. The Organization is required to report 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.

*Unrestricted Net Assets* - consists of assets, public support, program revenues and investment earnings which are available and used for charitable activities, operations and programs. Unrestricted net assets represent the portion of net assets of the Organization that is neither permanently restricted nor temporarily restricted by donor-imposed stipulations. Contributions are considered available for unrestricted use unless specifically restricted by the donor.

*Temporarily Restricted Net Assets* - includes funds with donor-imposed restrictions which permit the donee Organization to expend the assets as specified and are satisfied either by the passage of time or by actions of the Organization. Resources of this nature originate from gifts, grants, bequests and investment income earned on restricted funds (Note 4).

**FLYING KITES, INC.**

*Notes to Financial Statements*

*For the Year Ended December 31, 2015*

*(with summarized comparative totals for the year ended December 31, 2014)*

**Note 2 - Summary of Significant Accounting Policies (Continued)**

***Basis of Accounting and Presentation (Continued)***

*Permanently Restricted Net Assets* - includes resources which have a permanent donor-imposed restriction which stipulates that the assets are to be maintained permanently, but permits the Organization to expend part or all of the income derived from the donated assets. The Organization did not have any permanently restricted net assets at December 31, 2015.

***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.

***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.

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.

# FLYING KITES, INC.

## *Notes to Financial Statements*

### *For the Year Ended December 31, 2015*

*(with summarized comparative totals for the year ended December 31, 2014)*

#### ***Note 2 - Summary of Significant Accounting Policies (Continued)***

##### ***Contributions***

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, 2015 and 2014. All pledges are expected to be collected in full; therefore no allowance for bad debt was recorded as of December 31, 2015 and 2014.

##### ***Use of Estimates and Assumptions***

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Organization’s 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 and assumptions.

##### ***Advertising***

Advertising costs are expensed as incurred. Advertising expenses incurred by the Organization for the years ended December 31, 2015 and 2014 were \$5,012 and 1,863, respectively.

**FLYING KITES, INC.**

***Notes to Financial Statements***

***For the Year Ended December 31, 2015***

*(with summarized comparative totals for the year ended December 31, 2014)*

***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 \$127,564 and \$173,331 at December 31, 2015 and 2014, respectively, consisted of pledges receivable with time related restrictions.

**FLYING KITES, INC.**

***Notes to Financial Statements***

***For the Year Ended December 31, 2015***

*(with summarized comparative totals for the year ended December 31, 2014)*

***Note 5 - Fixed Assets***

Fixed assets consisted of the following as of December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Land	\$ 69,054	69,054
Buildings and improvements	158,126	158,126
Furniture and equipment	22,604	22,604
	<u>249,784</u>	<u>249,784</u>
Less accumulated depreciation	<u>(38,228)</u>	<u>(31,015)</u>
	<u>\$ 211,556</u>	<u>\$ 218,769</u>

Depreciation expense was \$7,213 and \$6,300 for the years ended December 31, 2015 and 2014, 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>82,500</u>
	130,000
Less:	
Net present value discount, at 1%	<u>(2,436)</u>
	<u>\$ 127,564</u>

***Note 7 – Related Party Transactions***

The Organization's executive director and her spouse (who is also an employee of the Organization) sit on the Organization's Board of Directors, and were paid wages of \$61,081 and \$28,581, respectively, in 2015, and \$37,697 and \$23,165, respectively, in 2014.

A former employee became a Board member of the organization in 2014. Wages received in 2014 as an employee was \$1,250.

**FLYING KITES, INC.**

***Notes to Financial Statements***

***For the Year Ended December 31, 2015***

*(with summarized comparative totals for the year ended December 31, 2014)*

***Note 8 - Leases***

In January 2015 the Organization entered into a tenant-at-will lease agreement for new office space located in Boston, Massachusetts. Monthly rent payment under the lease is \$1,530, which includes a monthly discount of \$270, through January 1, 2018. Rent expense for the years ended December 2015 and 2014 was \$19,372 and \$12,750, respectively.

***Note 9 - Contributed goods and services***

The Organization received donated goods and services valued at \$68,530 during for the year ended June 30, 2015. These amounts are reflected in the contributed goods and services, and program expense line items on the accompanying statements of activities.

***Note 9 - Subsequent Events***

Subsequent events have been evaluated through May 13, 2016, 2015, which is the date the financial statements were available to be issued.