



# RAE & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS AND BUSINESS ADVISORS

25 Braintree Hill Office Park | Suite 200  
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Lowell, MA 01851

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

## **FLYING KITES, INC.**

### ***Financial Statements***

***Year Ended December 31, 2017***

#### **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](http://www.flyingkites.org)**

**FLYING KITES, INC.**

*Financial Statements*

*Year Ended December 31, 2017*

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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, 2017, 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, 2017, 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 2016 financial statements, and our report dated March 28, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*RAE & Associates LLC*

RAE & Associates, LLC

Braintree, Massachusetts

April 12, 2018

**FLYING KITES, INC.**  
**Statement of Financial Position**  
**As of December 31, 2017**

*(with comparative totals as of December 31, 2016)*

	<u>2017</u>	<u>2016</u>
<i>Assets</i>		
Current assets:		
Cash and cash equivalents	\$ 679,339	\$ 822,249
Pledges receivable, current	315,000	47,500
Total current assets	<u>994,339</u>	<u>869,749</u>
Property and equipment, net	1,270,451	614,211
Security deposits	5,564	3,000
Pledges receivable (net of discount of \$2,680 and \$1,160 as of December 31, 2017 and 2016, respectively)	<u>97,320</u>	<u>33,840</u>
Total assets	<u>\$ 2,367,674</u>	<u>\$ 1,520,800</u>
<i>Liabilities and Net Assets</i>		
Current liabilities:		
Accounts payable and accrued expenses	<u>\$ 20,985</u>	<u>\$ 6,500</u>
Total liabilities	<u>20,985</u>	<u>6,500</u>
Net assets:		
Unrestricted	1,754,783	1,099,024
Temporarily restricted	<u>591,906</u>	<u>415,276</u>
Total net assets	<u>2,346,689</u>	<u>1,514,300</u>
Total liabilities and net assets	<u>\$ 2,367,674</u>	<u>\$ 1,520,800</u>

**FLYING KITES, INC.**

***Statement of Activities***

***For the Year Ended December 31, 2017***

*(with summarized comparative totals for the year ended December 31, 2016)*

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2017 Total</u>	<u>2016 Total</u>
Support and revenue:				
Individual contributions	\$ 347,441	\$ 178,480	\$ 525,921	\$ 352,185
Programs donations:				
Ambassador Program	78,267	-	78,267	89,508
FK Adventure	216,098	-	216,098	146,199
Sponsorship Program	231,297	-	231,297	156,200
Capital campaign	-	724,311	724,311	504,040
Partnership Income	20,000	-	20,000	91,000
Legacy scholarship	2,500	-	2,500	-
Events income	244,127	-	244,127	115,031
Contributed goods and services	30,503	-	30,503	298,835
Other revenue	-	-	-	8,943
Net assets released from restrictions	<u>726,161</u>	<u>(726,161)</u>	<u>-</u>	<u>-</u>
 Total support and revenue	 <u>1,896,394</u>	 <u>176,630</u>	 <u>2,073,024</u>	 <u>1,761,941</u>
 Expenses:				
Program services	1,043,983	-	1,043,983	684,542
Fundraising	148,596	-	148,596	87,266
General and administration	<u>48,056</u>	<u>-</u>	<u>48,056</u>	<u>96,105</u>
 Total expenses	 <u>1,240,635</u>	 <u>-</u>	 <u>1,240,635</u>	 <u>867,913</u>
 Change in net assets	 655,759	 176,630	 832,389	 894,028
 Net assets at beginning of year	 <u>1,099,024</u>	 <u>415,276</u>	 <u>1,514,300</u>	 <u>620,272</u>
 Net assets at end of year	 <u>\$ 1,754,783</u>	 <u>\$ 591,906</u>	 <u>\$ 2,346,689</u>	 <u>\$ 1,514,300</u>

**FLYING KITES, INC.**

***Statement of Cash Flows***

***For the Year Ended December 31, 2017***

*(with comparative totals for the year ended December 31, 2016)*

	<u>2017</u>	<u>2016</u>
<i>Cash flows from operating activities:</i>		
Change in net assets	\$ 832,389	\$ 894,028
Adjustments to reconcile change in net assets to net cash provided by activities:		
Depreciation expense	22,421	11,629
Net present value discount	(2,680)	(1,276)
Change in:		
Pledges receivable	(328,300)	47,500
Security deposit	(2,564)	-
Accounts payable and accrued expenses	14,485	-
Net cash provided by operations	<u>535,751</u>	<u>951,881</u>
<i>Cash flows from investing activities:</i>		
Construction costs	<u>(678,661)</u>	<u>(414,284)</u>
Net cash used in investing activities	<u>(678,661)</u>	<u>(414,284)</u>
Net change in cash and cash equivalents	(142,910)	537,597
Cash and cash equivalents, beginning of year	<u>822,249</u>	<u>284,652</u>
Cash and cash equivalents, end of year	<u>\$ 679,339</u>	<u>\$ 822,249</u>

**FLYING KITES, INC.**

*Statement of Functional Expenses*

*For the Year Ended December 31, 2017*

*(with summarized comparative totals for the year ended December 31, 2016)*

	<u>Program</u>	<u>Fundraising</u>	<u>General and</u>			
	<u>Expenses</u>	<u>Expenses</u>	<u>Administrative</u>			
			<u>Expenses</u>	<u>2017</u>	<u>Total</u>	<u>2016</u>
						<u>Total</u>
Salaries	\$ 206,281	\$ 39,500	\$ 11,740	\$ 257,521		\$ 117,708
Payroll taxes	15,780	3,022	898	19,700		9,005
Flying Kites Leadership Academy expense	649,248	-	-	649,248		466,331
Rents	29,384	5,627	1,672	36,683		24,600
Professional service fees	36,699	-	5,720	42,419		26,102
Meals	-	31	278	309		1,108
Merchant fees	2,034	18,972	-	21,006		22,196
Software expenses	3,694	8,099	-	11,793		12,413
Office supplies	-	-	2,092	2,092		1,182
Insurance expense	331	-	1,523	1,854		2,999
Miscellaneous expense	245	-	1,317	1,562		1,645
Adventure Challenges Program expense	52,563	-	-	52,563		74,961
Postage and delivery	787	131	395	1,313		852
Telephone and internet	-	-	-	-		361
Advertising	4,912	4,913	-	9,825		5,161
Website expenses	187	187	-	374		559
Fundraising events expense	-	66,853	-	66,853		35,795
Travel and meetings	11,335	1,261	-	12,596		5,256
Depreciation	-	-	22,421	22,421		11,629
In-kind contributions	30,503	-	-	30,503		48,050
	<u>\$ 1,043,983</u>	<u>\$ 148,596</u>	<u>\$ 48,056</u>	<u>\$ 1,240,635</u>		<u>\$ 867,913</u>
Total expenses						



# FLYING KITES, INC.

## *Notes to Financial Statements*

### *For the Year Ended December 31, 2017*

*(with summarized comparative totals for the year ended December 31, 2016)*

#### **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 vulnerable students in Kenya, through its Leadership Academy. Here, the Organization provides students with access to high-quality education and holistic support in an effort to alleviate suffering, increase gender equality and promote economic sustainability. By meeting the needs of the whole child, their integrative programs give students the tools they need to build their best lives and positively impact their families, communities and country. In addition to running the Leadership Academy, the Organization launched a Teacher Training Institute, partnering with local schools to help raise the level of education available to students in rural 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:*** In the foothills of Kenya's Aberdare Mountains, the Flying Kites Leadership Academy (“The Academy”) serves as a center of excellence. There, critically-poor students receive access to a competitive education, characterized by small classrooms, progressive course material, integrative care, and inspired teachers. The Academy provides each student with a safe, supportive, challenging, and engaging learning environment that emphasizes issues of social justice, three nutritious daily meals, access to social workers; interventions aimed at improving health and wellness, outdoor programs, girls' empowerment workshops, and support into secondary school and university.

***School Network Partners and Teacher Training Institute:*** The Organization partners with local, resource-poor schools to help build the capacity of teachers, helping them to develop student-centered learning environments, emphasize critical thinking and creativity within the classroom, and introduce innovative strategies and resources. In addition to access to the Teacher Training Institute, schools in the Organization’s network have access to partners and programs to help address other barriers to learning and improve student outcomes.

***Adventure Challenges:*** FK Adventures allow participants to have unforgettable experiences by either hiking Mt. Kilimanjaro or visiting Maasai Mara, Africa's greatest wildlife reserve. Participants raise funds that directly support its work.

***Child Sponsorship:*** The Sponsorship Program ensures that students receive access to exemplary care and education. Sponsorship funds help cover the costs of activities associated with education for the students at the Academy.

#### **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.

**FLYING KITES, INC.**

*Notes to Financial Statements*

*For the Year Ended December 31, 2017*

*(with summarized comparative totals for the year ended December 31, 2016)*

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

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

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. Temporarily restricted net assets amounted to \$591,906 and \$415,276 as of December 31, 2017 and 2016, respectively. There were no permanently restricted net assets as of December 31, 2017 and 2016 (Note 4).

***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

# FLYING KITES, INC.

## *Notes to Financial Statements*

### *For the Year Ended December 31, 2017*

*(with summarized comparative totals for the year ended December 31, 2016)*

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

##### ***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.

##### ***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.

# **FLYING KITES, INC.**

## ***Notes to Financial Statements***

### ***For the Year Ended December 31, 2017***

*(with summarized comparative totals for the year ended December 31, 2016)*

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

##### ***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, 2017 and 2016. All pledges are expected to be collected in full; therefore, no allowance for bad debt was recorded as of December 31, 2017 and 2016.

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

Advertising costs are expensed as incurred. Advertising expenses incurred by the Organization for the years ended December 31, 2017 and 2016 were \$9,825 and 5,161, respectively.

##### ***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.

##### ***Foreign Currency Translation***

Assets and liabilities denominated in a foreign currency are translated into U.S. dollars at the current rate of exchange on the last day of the reporting year. Revenues and expenses are generally translated using average exchange rates for the year.

# FLYING KITES, INC.

## *Notes to Financial Statements*

### *For the Year Ended December 31, 2017*

*(with summarized comparative totals for the year ended December 31, 2016)*

#### **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 \$591,906 at December 31, 2017 consisted of \$412,320 in pledges receivable with time restrictions (including \$200,000 in pledges restricted for capital campaign), and \$179,586 in unexpended capital campaign contribution funds received. Temporarily restricted net assets were \$415,276 at December 31, 2016 and consisted of 81,370 in pledges receivable with time related restrictions, and \$333,936 in capital campaign contribution funds.

#### **Note 5 - Fixed Assets**

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

	<u>2017</u>	<u>2016</u>
Land	\$ 69,054	69,054
Buildings and improvements	1,086,504	436,377
Construction-in-progress	158,262	129,728
Furniture and equipment	<u>28,909</u>	<u>28,909</u>
	1,342,729	664,068
Less accumulated depreciation	<u>(72,278)</u>	<u>(49,857)</u>
	<u>\$ 1,270,451</u>	<u>\$ 614,211</u>

In September 2017 the Organization completed the construction of a new dormitory building for girls at the Flying Kites Leadership Academy. The total cost for the building was \$186,317, including \$56,589 in construction costs incurred in 2017 and \$129,728 in 2016.

In October 2017 the Organization started the construction of a new classrooms building facility at the Academy. Construction costs incurred for the classroom building project during the year ended December 31, 2017 amounted to \$158,262. The new classrooms building is expected to be completed in January 2019, with estimated total costs to approximate \$605,000 upon completion.

In addition to the new building constructions, the Organization also performed remodeling and renovation work on the Academy's boys dormitory building facility during 2017.

Depreciation expense for the years ended December 31, 2017 and 2016 was \$22,421 and \$11,629, respectively.

# FLYING KITES, INC.

## *Notes to Financial Statements*

### *For the Year Ended December 31, 2017*

*(with summarized comparative totals for the year ended December 31, 2016)*

#### **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 as of December 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
In one year or less	\$ 315,000	\$ 47,500
Between one year and five years	<u>100,000</u>	<u>35,000</u>
	415,000	82,500
Less:		
Net present value discount, at 1%	<u>(2,680)</u>	<u>(1,160)</u>
	<u>\$ 412,320</u>	<u>\$ 81,340</u>

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

The Organization's executive director sits on the Organization's Board of Directors, and her spouse is also an employee of the Organization. The executive director and her spouse were paid wages of \$90,000 and \$40,000, respectively, in 2017, and \$62,500 and \$5,208, respectively, in 2016.

#### **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.

The Organization moved to a new larger office space again in 2017, and monthly rent payments under a new lease increased to \$3,960 as of March 1, 2017. Rent expense for the years ended December 2017 and 2016 was \$36,683 and \$24,600, respectively.

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

The Organization received donated goods and services valued at \$30,503 and \$298,835 during for the years ended June 30, 2017 and 2016, respectively. These amounts are included in contributed goods and services revenue, and in-kind contributions expenses 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.

**FLYING KITES, INC.**

*Notes to Financial Statements*

*For the Year Ended December 31, 2017*

*(with summarized comparative totals for the year ended December 31, 2016)*

**Note 10 – New Accounting Pronouncement (Continued)**

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 January 1, 2018.

In addition, FASB issued ASU No. 2016-02, *Leases*. The ASU, which becomes effective for the December 31, 2020 year, will require all leases to be reflected as assets and liabilities on the statement of financial position.

**Note 11 - Subsequent Events**

Subsequent events have been evaluated through April 12, 2018, which is the date the financial statements were available to be issued.